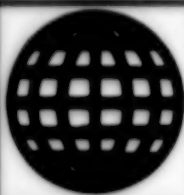


JPRS-CAR-90-021
20 MARCH 1990



**FOREIGN
BROADCAST
INFORMATION
SERVICE**

JPRS Report

China

China

JPRS-CAR-90-021

CONTENTS

20 MARCH 1990

INTERNATIONAL

GENERAL

Discussion of Global Trends in Handling Hot Spots [SHIJIE ZHISHI No 24]	1
Strained U.S.- New Zealand Relations Examined [XINHUA]	2
Saudis, Soviets Discuss Influx of Soviet Jews to Israel [XINHUA]	3

SOVIET UNION

USSR's Borodin Reaffirms Socialism in Mozambique [XINHUA]	3
USSR's Accusation That West Seeks Unilateral Superiority Noted [XINHUA]	4

NORTHEAST ASIA

DPRK Says U.S., ROK Must Discard Cold War Thinking [XINHUA]	4
---	---

SOUTHEAST ASIA/PACIFIC

Military Political View of Cambodian Forces' Victory at Pailin [SHIJIE ZHISHI No 23]	4
--	---

NEAR EAST/SOUTH ASIA

XINHUA 'Analysis' on Arab Cooperation Council Summit [XINHUA]	5
RENMIN RIBAO Analyzes Soviet Jew Migration Wave to Israel [RENMIN RIBAO 3 Mar]	6
U.S., Soviet Roles in Israel's Soviet Jews Settlement Policy Discussed [RENMIN RIBAO OVERSEAS EDITION 6 Mar]	7

EAST EUROPE

Current Tumult Seen as Opportunity for Socialism's Renewal [SHIJIE ZHISHI No 3]	8
Yugoslav Official's Objection to Party Split Reported [RENMIN RIBAO 17 Feb]	10
Romanian Decree on Social Order Reported [XINHUA]	11

POLITICAL

Commentary on Unique Style of Beijing's Zhang Baifa [Hong Kong KUANG CHIAO CHING No 207]	12
Enhanced Concept of Class Struggle Advocated [JIEFANGJUN BAO 8 Feb]	15

ECONOMIC

NATIONAL AFFAIRS, POLICY

Analysis of Rectification of Industrial Structure [JINGJI LILUN YU JINGJI GUANLI No 6]	16
Increased Assertion of State Control Over Economy Urged [GONGREN RIBAO 26 Jan]	21
'Second Step' of Development in 1990's Viewed [GUANGMING RIBAO 5 Feb]	23
Contract Management System, Macroeconomic Adjustment Reviewed [JINGJI RIBAO 13 Feb] ..	24
Economics May 'Threaten' Coastal Stability [Hong Kong HONGKONG STANDARD 19 Feb]	25
Communique Notes Major Economic Problems [XINHUA]	26
Cost of Living Increases 16.3 Percent [XINHUA]	26
Lateral Economic Cooperation Yields Marked Results [XINHUA]	27

Government Strives for Better Economic Performance [XINHUA]	28
Economic Retrenchment Produces Positive Results [CHINA DAILY 28 Feb]	28
Economist Says Optimum Growth Best Choice for Economy [XINHUA]	29

PROVINCIAL

Proposed Remedies for Fund Shortages in Shanghai [SHANGHAI JINGJI No 6]	29
Call for Improving Economic Rectification, Reform [WEN HUI BAO 9 Dec]	33
Economic Prospects for Six Eastern Provinces [JIEFANG BAO 2 Jan]	40
Anhui Outlines Five-Year Development Plan [XINHUA]	42

FINANCE, BANKING

Types, Causes of Financial Disorder [JINRONG SHIBAO 12 Dec]	43
Effects of Austerity Monetary Policy Examined [JINRONG SHIBAO 12 Dec]	44

INDUSTRY

Supporting Domestic Production of Textile Machinery [JINGJI CANKAO 20 Jan]	46
--	----

FOREIGN TRADE, INVESTMENT

Article Views Foreign Trade Incentive System [JINGJI GUANLI No 12]	47
Shanghai Foreign Entrepreneurs Face Problems [WEN HUI BAO 12 Dec]	50
Significance of \$5 Billion Trade Surplus [JINGJI RIBAO 24 Jan]	53
Roundup Examines Foreign Investment [XINHUA]	54
Building Materials Industry Expands Exports [XINHUA]	54
Audit To Focus on Foreign-Funded Activities [XINHUA]	55
Campaign To License Export Salespersons Begins [CHINA DAILY 3 Mar]	55
Tianjin Establishes Export Credit Supervision Center [XINHUA]	56
Zhejiang To Improve Investment Environment [XINHUA]	56

ECONOMIC ZONES

Cement Venture With Japan in Dalian Announced [CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) 19 Feb]	56
Guangdong's Shantou Zone Attracts Foreign Investors [XINHUA]	57
Hainan Expands Insurance Policies to Foreign Clients [XINHUA]	57
Hainan Governor on Reform, Opening to Outside World [XINHUA]	57
Zhuhai Reports Increase Foreign Investment [XINHUA]	58

LABOR

Trade Union Forum Discusses CPC Leadership Circular [XINHUA]	58
--	----

POPULATION

Large, Illiterate Population a Problem for Hainan [ZHONGGUO RENKOU BAO 19 Jan]	59
National Family Planning Meeting Ends [Jinan Radio]	61
Family Planning Meeting Opens in Shandong [XINHUA]	61

TRANSPORTATION

Strain on Railway Transport Eases in 1989 [XINHUA]	62
139 Trading Ports Opened to Foreigners [XINHUA]	62
Harbin Opens Five Domestic Air Routes [Harbin Radio]	63
Massive Expressway Construction Begins [XINHUA]	63
Double Tracking of Datong-Baotou Railway Completed [Hohhot Radio]	63

AGRICULTURE

Yunnan Peasant Income Figures Given [YUNNAN RIBAO 22 Jan]	63
Peasant Income Reaches All-Time High in Shanxi [SHANXI RIBAO 23 Jan]	64
Means of Increasing Agricultural Investment [HUBEI RIBAO 24 Jan]	64
Breaking Through Agricultural Stagnation [NONGMIN RIBAO 24 Jan]	65
Ningxia Livestock Production [NINGXIA RIBAO 5 Feb]	68
Yunnan Vegetable Transfers [YUNNAN RIBAO 9 Feb]	68
Yunnan Livestock Production [YUNNAN RIBAO 12 Feb]	68
Agricultural Construction Actively Under Way [XINHUA]	68
Hebei Cotton Area [HEBEI RIBAO 14 Feb]	69
Officials Confident of Good Fertilizer Supply [XINHUA]	69
Scientists Report Need for Increased Barley Production [XINHUA]	69
Farm Machinery Exports Quadruple Since 1985 [XINHUA]	70
Henan To Invest More in Cotton Production [XINHUA]	70
Free Market Beef, Mutton Prices by City [CEI Database]	70
Tibet Increases Farm Capital Construction [XINHUA]	71
Hainan Develops Aquatic Production Trade [Haikou Radio]	71
Trend of Shrinking Farmland Under Control [XINHUA]	71
Jiangxi To Increase Agricultural Funds 40 Percent [XINHUA]	71
Tea Exports Reach Record High [XINHUA]	72
Foreign Funding Improves Fish Farming [CHINA DAILY 23 Feb]	72
Efforts Made To Reap Better Harvest [XINHUA]	72
Governor Proposes Measures To Promote Agriculture [XINHUA]	73
November 1989 Price Index of Free Market [CEI Database]	73
Conservation Efforts [XINHUA]	74
Henan Encourages Export-Oriented Agriculture [XINHUA]	74
Tibet Succeeds in Applying Science to Farming [Lhasa Radio]	74
JINGJI RIBAO Reports on Fertilizer Industry [XINHUA]	74
January Imports of Cereals, Oils, Foodstuffs [CEI Database]	75
Jiangxi Official Explains Use of World Bank Loans [XINHUA]	75
Food Production, Price Controls Viewed [CHINA DAILY 2 Mar]	76
Plans for Agrosience Development Outlined [XINHUA]	76
Foundation Supports Key Agricultural Projects [XINHUA]	76
Modern Vegetable Seedling Base Built in Beijing [XINHUA]	76
Rural Beijing Benefits From 'Spark Plan' [XINHUA]	77
Heilongjiang Reports Beet Production Problems [Harbin Radio]	77
Inner Mongolia Exports Soybean to Soviet Union [Hohhot Radio]	77
Guangxi Reports Record Sugar Production [XINHUA]	77
Hunan Popularizes Tilling Machines for Paddy Fields [XINHUA]	78
Drop in Sugar Production Reported [CHINA DAILY 12 Mar]	78
Farm Commodity Production Bases Successful [XINHUA]	78
Fish Consumption Up in Hubei Province [XINHUA]	79
Grain, Oil Crop Areas To Increase This Year [XINHUA]	79
Anhui To Give Top Priority to Agricultural Sector [XINHUA]	79

REGIONAL

EAST REGION

Fujian Sets Guidelines on Marxist Study for Cadres [FUJIAN RIBAO 16 Jan]	80
--	----

CENTRAL-SOUTH REGION

Campaign Continues Against "7 Vices" in Guangdong [RENMIN GONGAN BAO 9 Jan]	83
Teenage Crime Rising in Guangdong [Hong Kong MING PAO 15 Jan]	83
Hainan Plans Rural Radio-TV Network [Haikou Radio]	84
Guangdong To Send Teachers, Students to Grassroots [Guangzhou Radio]	84
Haikou Sets Objectives for Spiritual Civilization [Haikou Radio]	85

SOUTHWEST REGION

Heilongjiang Urges Changes in Ideas About Education [Harbin Radio]	85
Tasks Defined in Liaoning Educational Work Conference [Shenyang Radio]	86
Heilongjiang People's Congress to Reform Agenda, Methods [Harbin Radio]	86
Jilin Reports Procuratorial Work Achievements [Changchun Radio]	87
Heilongjiang Tests New Way of Learning Chinese [XINHUA]	87
Heilongjiang Forum Studies Deng's Book on Literature, Art [Harbin Radio]	88

PRC MEDIA ON TAIWAN AFFAIRS

Anhui-Taiwan Cultural, Academic Exchanges Increase [Hefei Radio]	89
Campaign for Vice President 'Intensely Competitive' [Hong Kong LIAOWANG OVERSEAS EDITION No 8]	89
Mainland, Taiwan Scholars To Meet on Chinese Medicine [XINHUA]	90
Taiwan Compatriots Federation Discusses Reunification Work [XINHUA]	91
KMT Revolutionary Committee Discusses Taiwan [Beijing Radio]	91
CPPCC, United Front Meet Taiwan Unification Group [XINHUA]	91

TAIWAN

Support of United States Called For in Bid to Join GATT [CHING-CHI JIH-PAO 6 Jan]	93
Editorial Reexamines Investment in PRC [LIEN-HO PAO 25 Jan]	94
Official Condemns Firearms Smuggling From Mainland [Taipei International]	95
Increased Emigration Attributed to 'Worsening' Conditions [CNA]	95

HONG KONG, MACAO

Tsui Sze-man Interviewed on Hong Kong's Future [CHING PAO No 150]	96
Status, Outlook for Economy in 1990 [Beijing JINGJI CANKAO 14 Jan]	98
International Standing Said Improving [LIAOWANG No 4]	101
Poll Reveals Public Apathy Over Basic Law [SOUTH CHINA MORNING POST 5 Mar]	102

GENERAL

Discussion of Global Trends in Handling Hot Spots

90ON0280A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 24, 16 Dec 89 pp 10-11

[Article by Wang Qiwen (3769 0796 2429): "The Violent Regions of the World Will Continue To Cool Off; Diplomatic, Political, and Economic Struggles Will Grow More Complex and Intense"]

[Text] In the last one or two years we have seen monumental changes in the violent areas of the world. These changes manifest themselves in five unique ways.

First, we have widespread reductions in military conflicts, and frequent initiation of dialogue and discussion; however, fundamental differences remain, and political resolution does not come easily. Currently, looking at the six violent areas of the world, fierce fighting has wound down in Iran, Iraq, the Middle East, and southern Africa, and these areas have entered a stage marked by a willingness to talk. In three other violent regions—Afghanistan, Cambodia and Central America—fighting continues, at times becoming even more fierce, but foreign troops have withdrawn or have announced they will withdraw, dialogue has begun, and the intensity of the wars has lessened considerably. Thus, we may say that there is widespread cooling in the violent areas of the world, and political resolution of problems has become the trend. Some problems, such as the issue of Namibian independence, have been resolved quite nicely. However, in a fundamental sense, the contradictions and differences in the violent areas of the world are deeply ingrained, and at this point we have still not really resolved them. Thus, we consider the relaxation to be merely a beginning. Granted, we have also noticed that the forms of battle have undergone certain changes. That is to say, emphasis is moving away from military battles and moving toward political and diplomatic battles. Or we could say that political and diplomatic struggle is being given equal weight now.

Second, the United States and the Soviet Union have altered their regional policies, and this has led to less tension. However, neither is willing to abandon its strategic regional interests, and both use regional issues as bargaining chips when negotiating with the other. Both sides would like to reduce military intervention as much as possible and promote political resolution of regional problems. Yet, the contest has not become more relaxed. This latter point is quite clear at present. For example, in Central America the situation has recently worsened, and the battles have risen to new levels. Salvadoran guerrillas are attacking the capital, and Nicaragua has announced it will call off its cease-fire. The United States and the Soviet Union are behind all of this. The United States is quite annoyed that the Soviets persist in shipping large quantities of military armaments to Central America, and for this reason it supports the Sandinistas in their troublemaking. At the same

time, the United States prods the Salvadoran authorities into cracking down on the Salvadoran democratic forces and attacking the guerrilla alliances with the result that the guerrillas launch even more tenacious counteroffensives. Why would the United States want to see an escalation in these matters? The way I see it, the United States is interested mainly in bringing this situation up at the summit meetings between the United States and the Soviet Union and thereby putting greater pressure on the Soviets to stop arming Cuba and Nicaragua. This is a classic example of using regional conflict as a bargaining chip. Also, the United States is continually carrying out political subversion and military provocation in Panama, and recently it instigated a new coup attempt to bring down Noriega.

From what has been said we can see that the United States will not budge an inch on its interests in its own backyard. Now the United States is trying to influence public opinion on this point, and Secretary of State Baker has said that Soviet shipments of arms to Central America will be discussed at the U.S.-Soviet summit meeting. He also said that Soviet shipment of arms to Central America is the largest obstacle to improving overall relations between the United States and the Soviet Union. The Soviet Union is now interested in making deals in Asia. At one time it proposed that it would withdraw from Cam Ranh Bay if the United States withdrew from its Philippine bases. But the United States was not willing to do this. Foreign news dispatches now have revealed that the Soviets are still seeking to deal on this issue. They are preparing to make an unconditional withdrawal from their Cam Ranh Bay base next year, and they hope that by doing this they can force the United States to withdraw from its bases in the Philippines. Thus, I expect that open strife and veiled struggle between the United States and the Soviet Union over regional issues will continue in the future.

The third unique feature is that the makeup of regional strategy is undergoing new adjustments. However, the basic balance of forces has not changed much. This is shown mainly in three ways. 1) There is widespread improvement in relations between nations. In particular, hostile nations in regions of conflict are now improving their relations and strengthening contacts. 2) There have been enormous developments in regional political cooperation. The Arab Coordination Commission and the Southeast Asian Regional Cooperative Alliance, among other regional cooperative groups, have arisen at a historic moment. 3) Regions and nations have broken away from superpower control, and more and more they are treating superpowers on an equal basis or breaking away from them. Because of this, certain nations have been less than enthusiastic about resolving regional conflict problems. The emergence of these delicate regional changes has complicated the political resolution of regional problems and led to a whole host of difficulties. However, as for the present, the basic regional balance of forces has not been greatly affected.

The fourth point is that military struggle remains fierce in certain regions, and guns still provide the primary means for the solution of political problems. However, ultimate resolution of the problems will depend on the comprehensive comparative strengths of the military, the economy, politics, and diplomacy, among other things. The Soviets went from direct involvement in Afghanistan to acting as an indirect meddler providing secret support. According to the U.S. press, the Soviets have already increased their military aid to the Kabul regime from its previous level of \$250-300 million per month up to \$400 million per month. This ensures that domestic strife in Afghanistan will continue, and that the Kabul regime will be able to keep on going after the Soviet withdrawal. It also protects the Soviets' strategic interests in the region.

The fifth feature is that the United Nations and regional organizations play an increasingly greater role in mediating regional conflict. In recent years, the United Nations has acted as both arbitrator and mediator in dealing with regional problems. Moreover, it has achieved fairly good results. This has come about for a variety of reasons. The major nations, and in particular the five nations of the permanent UN Security Council, have coordinated their efforts, support from member nations has grown, the people of the world demand peace, there are strong desires for more development, and so forth. Granted, the overall world climate has provided an appropriate atmosphere. Also, certain regional organizations and certain large nations and regions have played important roles in resolving regional problems and mediating national conflicts. At times they bring their unique influence to bear and achieve what others are incapable of. For example, initial success in resolving the problems in Lebanon did not come about until the multinational force (MNF) entered the scene as a mediator. However, regional organizations themselves have their own interests, and their influence is limited.

Looking to the 1990's, it appears we can summarize the likely developments in the world's hot spots with two sentences. Things will continue to become more relaxed. And, there will be new developments in struggles borne out of contradiction. There is one point of view that believes there are only two different ways that the conflicts in the regions of violence can go: The first is that the market place will replace the battlefield, and fierce struggles will not happen with military forces but will be decided by economic forces. The other possibility is that problems cannot be resolved. The future will see military confrontation alternating with political battles. The way I see it, in most of the hot spots of the world, the second possibility is the more likely one.

Strained U.S.- New Zealand Relations Examined

OW0503144390 Beijing XINHUA in English
0648 GMT 4 Mar 90

[Text] Wellington, March 4 (XINHUA)—While last week's meeting between Foreign Affairs Minister Mike

Moore and Secretary of State James Baker signaled a breakthrough in the strained New Zealand-United States political relationship, any major advancement from this stage is seen as not likely to happen in the near future.

With both men describing their 35-minute meeting in Washington Friday as friendly and open, they nevertheless kept their lips tight on a change of stance from both sides regarding nuclear ship visits.

Refusal by New Zealand, under the present Labor administration, to accept the U.S. "neither confirm nor deny" policy over nuclear presence on its warships and the resultant banning of a U.S. nuclear potential naval ship to visit New Zealand ports in 1985 have led to the U.S. cancellation of bilateral top political contacts as well as military cooperation under the Australia-New Zealand-United States Defense Pact (ANZUS) since 1986.

Baker emphasized after his breakthrough meeting with Moore that the ANZUS split still stands in the way to any "return to cooperation and confidence" on defense matters and that the thaw in relations represents only an "adjustment in the limited access policy."

Moore, on his part, said there is "no hint" of further high-level political meetings at the moment. He predicted improving the political relationship will require "a lot of hard work and tolerance."

While speculation in Washington that U.S. President George Bush may go to Australia in August or November this year has raised the possibility of his visit also to New Zealand, Moore said that though he loves this to happen, it is "a major diary item."

Political scientist Professor Henry Albinski of the U.S. Pennsylvania State University believed, however, that meetings between other cabinet members from the two countries, even with security responsibilities, or even between the prime minister and the President, cannot be ruled out from now on as it will be "outside the kind of very specialized ANZUS [Australia-New Zealand-U.S. Defense Pact] ministerial framework where a good many confidences are exchanged."

However, he maintained that the Bush administration will be reluctant to open the way for more high-profile contacts with New Zealand at least till after this year's general election because "on balance the U.S. would still prefer to have another government in Wellington... and it wouldn't wish to make political life that much easier for labor."

The sudden invitation by Baker to meet visiting Moore seeking consultations with Washington officials at "appropriate" levels on international drug trade has surprised not only the New Zealand Ministry of External Relations and Trade bureaucrats and U.S. Ambassador to New Zealand Della Newman, but also Moore himself.

While it is difficult to pinpoint any single factor that led to the development, it could reflect a slightly changed

perception in Washington that under the changing world situation nuclear policy no longer enjoys the same high priority as it used to, according to an expert on New Zealand-U.S. relations from New Zealand's Auckland University.

New Zealand's cooperation with the U.S. on international issues including trade and environment, Associate Professor of Political Studies Steve Hoadley believed, has assumed a greater importance than it did before.

Baker, in his job just over a year, was clearly prompted by criticism of the ban on New Zealand contacts from influential Congressmen Stephen Solarz and Jim Leach, and the Labor Government in New Zealand, confronted with promises of restored ANZUS links with the U.S. by the opposition National Party, has also had its election interests to consider, observers here noted.

The change of personalities in both governments has also helped with the thaw. The many friendly tokens to the U.S. from New Zealand's new Labor Administration under Prime Minister Geoffrey Palmer, with Moore as the new foreign minister, including its support for the U.S. invasion of Panama—the few the latter has enjoyed—have also had their impact.

Both governments have agreed to "quarantine" their defense relationship while working for greater cooperation in such fields as Asian and Pacific economic cooperation, the multilateral negotiations under the General Agreement on Tariffs and Trade (GATT), the international drug trade, driftnet fishing, and the situation in South Africa and Eastern Europe.

Saudis, Soviets Discuss Influx of Soviet Jews to Israel

OW0903092890 Beijing XINHUA in English
0048 GMT 9 Mar 90

[Text] Kuwait, March 8 (XINHUA)—The influx of Soviet Jews into Israel was the major topic of discussion between Saudi Foreign Minister Prince Sa'ud al-Faysal and a visiting Soviet official today, according to Radio Riyadh monitored here.

No details were immediately available for the meeting between the foreign minister and the Soviet delegation headed by Vladimir Polyakov, director of the Middle East and North Africa Department at the Soviet Foreign Ministry.

But news from Moscow indicated that Polyakov had come to explain the views of the Soviet Union on the Soviet Jewish immigration, developments in the international and Arab situation and the Arab-Israeli conflict.

The Soviet delegation arrived in Riyadh Wednesday evening.

On March 5, foreign ministers of the six Gulf Cooperation Council (GCC) states pledged to confront the Soviet Jewish influx into Israel in step with the Arab League's efforts in this regard.

The ministers, meeting in Riyadh, urged the Soviet Union and East European countries to work in unison with Arab countries to prevent Soviet Jews from immigrating to Israel and settling in the occupied territories.

Arab countries, including the six GCC countries (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman and Bahrain) are angered by the influx, as many newcomers will eventually settle in the West Bank and Gaza Strip, home to 1.7 million Palestinians.

The land, occupied by Israel since the 1967 Middle East war, was proclaimed an independent state in 1988 by the Palestinian National Council.

On March 6, Soviet Ambassador to Lebanon Vassili Kortucha said that his country was opposed to settling Jewish immigrants in the occupied territories.

But, like other countries with Jewish communities, the Soviet Union, in observing the relevant international conventions, will not completely halt the emigration of its Jewish citizens, the Soviet ambassador said.

He also blamed the United States for imposing immigration restrictions, thus directing Soviet Jews to Israel.

Israeli officials have said that they expect 750,000 Soviet Jews to arrive in the current decade, and 230,000 of them may arrive this year.

SOVIET UNION

USSR's Borodin Reaffirms Socialism in Mozambique

OW0803042090 Beijing XINHUA in English
1855 GMT 6 Mar 90

[Text] Maputo, March 6 (XINHUA)—A parliamentarians delegation of the Soviet Union led by member of the Presidium of the Supreme Soviet, Mr. Yuriy Ivanovich Borodin, concluded a week-long visit to Mozambique and left here for Tanzania today.

During the trip, the delegation exchanged views with chairman of the Mozambican parliament, the People's Assembly, Marcelino dos Santos, Mozambican Foreign Minister Pascoal Mocumbi and other members of the government.

Mr. Borodin told the press upon departure that, despite the changes that are taking place in the Soviet Union and Mozambique, the two countries "are engaged in building democratic socialism."

The delegation also visited the Mozambican provinces of Sofala and Nampula.

USSR's Accusation That West Seeks Unilateral Superiority Noted*OW0803072590 Beijing XINHUA in English
1328 GMT 7 Mar 90*

[Text] Moscow, March 7 (XINHUA)—Vienna talks on conventional weapons reduction in Europe reached a standstill in certain areas following the West's attempt to seek unilateral superiority, according to Soviet chief negotiator Oleg Grinevskiy.

Grinevskiy made the remark at Tuesday's joint session of the Supreme Soviet's committees on the international affairs, and defense and state security.

The official TASS NEWS AGENCY today quoted Grinevskiy as saying that in the six disarmament areas, participants of the talks basically agreed on a limited number of tanks and helicopters, and are nearing an agreement over the number of cannons and armored vehicles to remain in service.

Moreover, Grinevskiy told the session that Soviet and U.S. troops stationed in the central Europe would be cut to 195,000, which Soviet Foreign Minister Eduard Shevardnadze and U.S. Secretary of State James Baker agreed to last month in Ottawa.

The major problem facing weapon reduction negotiations in Central Europe involves the limitation of weapons and troops in a unified Germany under the European collective security system, that is beginning to take shape, Grinevskiy said.

NORTHEAST ASIA**DPRK Says U.S., ROK Must Discard Cold War Thinking***OW0203224190 Beijing XINHUA in English
1556 GMT 27 Feb 90*

["DPRK Announces Military Alert Against U.S.-South Korean War Games"—XINHUA headline]

[Text] Pyongyang, February 27 (XINHUA)—The Democratic People's Republic of Korea is under full alert and in readiness to counter the annual U.S.-South Korean military exercises, reported the official newspaper NODONG SINMUN.

In a communique carried by the paper, the Korean People's Army (KPA) Supreme Commander said, the exercises code-named "Team Spirit" have been conducted annually since 1970s and constitute a serious threat to the DPRK and all the Korean people.

The KPA's order applied to all military and security forces, the Worker-Peasant Red Guard and the Young Red Guard.

The communique said, "The United States and South Korea must give up old and outdated mode of thinking

of the 'Cold War' and give up joint military exercises aimed at fulfilling foolish aggressive ends."

If the U.S. and South Korea persist in following the road of war and aggression, the DPRK Armed Forces and the people will rise as one in the struggle to defend their motherland and their revolutionary gains, the communique warned.

SOUTHEAST ASIA/PACIFIC**Military, Political View of Cambodian Forces' Victory at Pailin***90ON0292A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 23, 1 Dec 89 p 14*

[Article by Xiao Cheng (5618 2052) "Thoughts in Connection With the Capture of Pailin"]

[Text] At 0600 on 22 October, the Cambodian resistance forces occupied the important city of Pailin in the western border region of Cambodia, liberating the entire Pailin district. This is a most important victory of the Cambodian resistance forces in their 11 years of anti-Vietnamese struggle. Whether this victory is of equal significance as the battle of Dien Bien Phu in the days of the Vietnamese war of resistance against France is a matter on which opinions differ internationally. However, international observers generally believe that, from any viewpoint, the major significance of this victory cannot be underestimated.

Recently, Vietnam has, on the one hand, proclaimed the "total withdrawal of its forces," but, on the other hand, left behind somewhat more than 10 regular divisions of almost 8,000 men, as well as 60,000 militia, and 1 million "immigrants." In line with its present way of controlling Cambodia, Vietnam has deployed this secret army of aggression in three major regions: in Phnom Penh and the Phnom Penh region, in the east Cambodia and Cambodia-Vietnam border region, and in the strategically important western region of Cambodia. At the same time, in order to maintain the Heng Samrin regime, Vietnam has speeded up reinforcement of the military strength of Heng Samrin's troops, and thus further improved its battle deployment for the encirclement and annihilation of the Cambodian resistance forces. It is obvious that Vietnam's plot is to pursue an "Afghanistan type" war plan under the cover of its proclaimed "total withdrawal," with the intention of prolonging the Cambodian struggle, which would aid its continued control of Cambodia. The Cambodian resistance forces have countered this strategy by first launching an attack in the Thai-Cambodian border region. In one stroke they captured Pailin, where they showed off five captured Vietnamese soldiers to foreign correspondents as a most powerful exposure and rebuttal of the Vietnamese "troop withdrawal" fraud.

Viewing the development of the Cambodian battlefield for the past 11 years, we see that the capture of Pailin is

a strategic turning point. For a long time, the Cambodian resistance forces have fought only a guerrilla war, which essentially consisted of nothing but small-scale harassing actions. The several attacks against Battambang were also short assaults and quick escapes, occupation and quick withdrawal. However, in the present battle for Pailin, heavy casualties were inflicted on four divisions and one brigade of Vietnam and bogus Cambodian forces, and an important city was occupied. As of today, Pailin is still in the hands of the Cambodian resistance forces, which shows that the anti-Vietnamese resistance struggle has entered a new military phase.

The victory at Pailin and its capture is a victory for the tripartite anti-Vietnamese coalition and alliance. In the battle for Pailin, the attack was carried out mainly by the Khmer Rouge, but the entire Pailin battle plan was jointly formulated at the armed forces conference of the three anti-Vietnamese parties. Besides, when the general attack against Pailin was mounted, troops of the other two anti-Vietnamese parties were effectively pinning down and attacking the enemy northeast of Pailin. This fully demonstrated the cooperation and mutual support of the three anti-Vietnamese parties on the battlefield. Practice has shown that the coalition and alliance of the three anti-Vietnamese parties is not only relevant to victory or defeat in the anti-Vietnamese war, but also crucial in determining Cambodia's future. Some recent reports have asserted that the entire Pailin battle was fought by Khmer Rouge forces alone, with no sign of three-party cooperation and mutual support, going so far as to assert, by extension, that the attack against Pailin was an indication that the Khmer Rouge wants to wrest all power into their own hands. These reports are obviously contrary to facts, and are also not fair.

The Pailin battle has also many tactical peculiarities: The fact that, with so great a disparity in military strength, two divisions of the anti-Vietnamese resistance forces fighting four divisions and one brigade could achieve a military victory, the smaller force defeating the larger force, the weaker overcoming the stronger, is a most commendable experience. The city of Pailin is in a valley surrounded by mountains, easy to defend and difficult to seize, but the general attack began at 0400 and by 0600 the city was already taken, a feat that Western observers could not but praise highly: It was really unbelievable that organization and planning of the attack against Pailin by the resistance forces could be carried out in so splendid a manner.

After the Paris conference on the Cambodian question, Prince Sihanouk emphatically pointed out that the resistance forces must expand their own territory in order to strengthen and enhance their negotiating position. Now that the resistance forces have occupied Pailin, they have not only enlarged the liberated area and strengthened the rear, but also opened the road for an attack on Cambodia's second-largest city, Battambang, thus creating a new situation on the battlefield. Of course, the policy of the resistance forces is to use fighting for the purpose of urging negotiations; the objective is to bring Vietnam

and the bogus Cambodians back to the negotiating table and to earnestly negotiate the question of the complete withdrawal of all Vietnamese military forces, as well as the question of organizing a temporary united government for all of Cambodia, in order to achieve as early as possible a complete political solution of the Cambodian question. According to a proclamation by Prince Ranariddh, the next war objective of the resistance forces is the capture of the cities of Battambang and Siem Reap. If these two cities are captured, Phnom Penh will surely become amenable to negotiations. As has been reported, the Cambodian resistance forces from the Thai-Cambodian border have already passed through Bobei [3134 6296] and Sisophon and penetrated Cambodia to a depth of over 50 km, threatening a large area of western Cambodia. Following the capture of Pailin on 22 October, they again captured on 28 October the county seat of Samloul and are continuing their advance toward Battambang.

The capture of Pailin was something completely unexpected by Vietnam and the authorities in Phnom Penh. In relying on the favorable defensive topography of Pailin and on the strong military force left to hold the place, they had considered it impossible for the resistance forces to capture Pailin, and that, if they did enter Pailin, they would not be able to hold it. However, just the opposite happened, which left the bogus Cambodian government in utter shock and dismay. In great haste they proclaimed martial law in Battambang on 26 October and on 30 October imposed a curfew in Phnom Penh. Foreign wire services report that outside of Phnom Penh the entire country is under a tense war atmosphere. Vietnam and bogus Cambodia are also steadily moving troops to strengthen the defenses of the area around Battambang, Siem Reap, and Sisophon, while proclaiming their intention to recapture Pailin and destroy the Cambodian resistance forces.

All this shows that an upgrading and expansion of the Cambodian war has become inevitable. The development of the war situation is attracting the attention of the entire international community.

NEAR EAST/SOUTH ASIA

XINHUA 'Analysis' on Arab Cooperation Council Summit

OW2602052690 Beijing XINHUA in English
0042 GMT 26 Feb 90

["News Analysis: ACC Summit Ends Without Practical Joint Proposals (by Chen Ruwei)"]—XINHUA headline]

[Text] Amman, February 25 (XINHUA)—The Summit of the Arab Cooperation Council (ACC) ended here last night with reiteration of the ACC's position on the major issues in the Middle East but without announcing practical actions or proposal for their settlement.

Sources here said what could be described as meaningful, remarkable achievements of the summit is the approval of 11 agreements by the heads of state from the member states.

These agreements cover cooperation among the ACC states in science and technology, industry, oil and gas, tourism, local administration and municipal affairs, health services, meteorology, civil aviation, maritime transport and religious affairs.

The 11 agreements, plus 16 similar agreements approved earlier, would push and accelerate the economic and social developments within the ACC. The task now is to completely implement them, which requires the coordination, understanding and certain degree of sacrifices by the four member states when their interests conflict each other.

The summit was convened at a time when the Arab nation is witnessing momentous events and mounting challenges, which require serious study and well-conceived approaches to cope with. Egyptian President Hosni Mubarak said at the summit, "We should examine them, taking into consideration all their dimensions and repercussions on the region's stability and chances for establishing a durable and just peace between all its people without exception."

But it seems no breakthrough has been achieved on the major issues discussed, which include the influx of Soviet Jews to Israel, the deadlocked Middle East peace process, the no-war, no-peace situation between Iraq and Iran, the ongoing civil war in Lebanon and the water war in the Middle East.

According to a press communique released and two press conferences held by ACC summit official spokesman Marwan al-Qasim, who is also the Jordanian foreign minister, the four leaders from Egypt, Iraq, Arab Yemen and Jordan discussed all the hot regional issues on the summit agenda as well as subjects not on the agenda, such as the changes of Eastern Europe and their impacts on the Middle East and inter-Arab relations, at their televised meeting in the morning and their closed-door meeting in the afternoon. However, their discussions generally focused on the seriousness of the most dangerous challenges and threats confronting the Arab world and the necessity of dealing with these challenges and threats.

Marwan al-Qasim singled out the recent large influx of Soviet Jews to Israel and the water war in the Middle East as the two most dangerous threats facing the Arab nation. The summit reiterated the ACC's stand on these hot issues. But no concrete, practical and meaningful proposals were made, nor any decision on joining actions.

The summit ended one day ahead of schedule. This was taken to mean that "the discussions at the summit are general, not in details which usually can result in joint actions and proposals."

RENMIN RIBAO Analyzes Soviet Jew Migration Wave to Israel

HK0703074590 Beijing RENMIN RIBAO in Chinese
3 Mar 90 p 4

["Roundup" by staff reporter Wu Wenbin (0702 2429 2430): "The Impact of the Wave of Jewish Immigration"]

[Text] Damascus—A huge wave of Jewish emigration has appeared in the Soviet Union and East European countries at the beginning of the 1990's. According to an Israeli radio report, over 9,600 Soviet Jews emigrated to Israel in the first two months of this year. Israel will accept approximately 230,000 Jewish immigrants from the Soviet Union in 1990. In the coming five to 10 years, 750,000 to one million Jews will emigrate from the Soviet Union and Eastern Europe to Israel.

With the Middle East peace process at a standstill and the Israeli-occupied territories in continuing unrest, this sudden rise of a wave of Jewish immigration in large numbers has caused a strong response from the Arab world and great concern in the international community.

Leaders of the Arab countries have recently made remarks and statements on the wave of immigration of Soviet Jews to Israel and frequently exchanged visits and held talks on this subject. The Arab states and the Arab League are prepared to seek a common solution to this important matter.

First, they hold that the immigration of Soviet Jews constitutes a serious threat to the Arab nations and a new factor of war affecting the peace, security, and stability of the region. They propose holding a special Arab summit and call on the Arab nations to unite to cope with the challenge.

Second, they hold that the immigration of Soviet Jews into the Israeli-occupied territories has violated the norms of international law and the Fourth Geneva Treaty. They accuse the Soviet Union of putting its interests above those of the Arab people of Palestine. They denounce the United States for protecting the so-called human rights of the Jews, instigating the Jews to immigrate in large numbers to Israel, and supporting Tel Aviv's "Greater Israel" plan.

Moreover, they urge the Soviet Union to reconsider its emigration policy and to apply pressure on Israel by permitting the Soviet Jews to emigrate under the condition that Israel guarantees that they will not be placed in the Arab territories which it occupied in 1967. They oppose the establishment of a direct air service between the Soviet Union and Israel. They strongly demand that the U.S. Government remove restrictions on the immigration of Jews from the Soviet Union and permit Jewish immigrants to settle freely in either the United States or Western Europe. Meanwhile, they have adopted concrete measures to stop Israel from setting up settlements and placing the new immigrants in the occupied territories on the West Bank and Gaza Strip.

Under strong pressure from the Arab world, the Soviet Union has proposed holding a special meeting of the United Nations Security Council and letting the international organization decide on the issue of immigration. With regard to current Soviet emigration policy, the Soviet vice foreign minister explained that it is stipulated by law that "citizens have the freedom to move to another place and to emigrate," and it is impossible to impose restrictions on Jews while permitting others to emigrate. On the other hand, the Soviet Foreign Ministry issued a statement firmly opposing Israel's placement of new immigrants in the occupied territories, urging Israel to stop its measure of changing the ownership of the territories, and denouncing Israel for using the issue of immigration to sow dissension between the Soviet Union and the Arab countries. The Soviet Union pointed out that the United States should be held responsible for this because it had provided Israel with tremendous immigration funds. The United States also issued a statement opposing the expansion of settlements and placement of new immigrants in the occupied territories. However, it abstained from voting when the United Nations Human Rights Commission adopted a resolution in the middle of this month [February] forbidding Israel to place new immigrants in the Arab territories which it occupied in 1967.

The media here point out that because of the recent sharpening of conflicts between nationalities in the Soviet Union, Soviet Jews, fearing that they may become victims of disputes between nationalities, have applied for permission to leave the country. The United States has taken this opportunity to make a private deal with Israel. While the Soviet Union opens its door so that Jews can emigrate, Washington blocks the Jewish immigrants' path to the United States, thereby forcing the Soviet Jews to head for Israel. The United States also gives Israel tremendous funds each year to place the immigrants.

Since 1967, Israeli authorities have set up 178 immigration points in the occupied territories, taken control of 90 percent of the water resources, confiscated 50 percent of the Palestinians' land on the West Bank, and confiscated one-third of the land in the Gaza Strip. It has built about 100 factories and placed more than 170,000 immigrants on the West Bank and Gaza Strip. To receive and place the newly-arrived Soviet Jews and to build 17,000 new houses for them, the Israeli Government has allocated funds amounting to \$900 million in the just-approved 1990 financial budget of \$32 billion. Israeli Prime Minister Yitzhak Shamir recently said that Israel would never give up the West Bank and Gaza Strip and would build in Jerusalem a settlement accommodating 150,000 to 180,000 Jewish immigrants, that the new arrivals might settle in any place that they wished, and that the arrival of large numbers of Jewish immigrants would strengthen Israel and was needed by "Greater Israel." His words lay bare Israel's plot to change the population structure in the occupied territories and subsequently to annex them forever.

The current wave of Jewish immigration has not only sharpened the dispute between the Arab countries and Israel, but also enabled Israeli authorities, who are already beset with difficulties at home and abroad, to revive their old dream of building a "Greater Israel" extending from the Euphrates to the Nile, thereby making it more difficult to solve the Palestinian issue and attain peace in the Middle East.

U.S., Soviet Roles in Israel's Soviet Jews Settlement Policy Discussed

HK0703113590 Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 6 Mar 90 p 6

[Article by Chen Peiming (7115 0160 2494): "Just See How They Will Act"—on Soviet Jews Immigrating to Israel]

[Text] The fact that large numbers of Soviet Jews are emigrating to Israel has caused great shock among Arab countries. Many Arab leaders blame this move for seriously threatening peace in the Middle East. The Arab League plans to send delegations to meet with leaders of the United States, the Soviet Union, and the European Economic Community. They will urge them to pay attention to the fact that the incessant influxes of Soviet Jews into Israel "will create an explosive situation." Arafat said this is "a catastrophe" for the Palestinians. In response, the Palestinians, whose land is being occupied, held a general strike in protest. The Palestinian Liberation Organization [PLO] has requested a special meeting of the heads of Arab states to formulate a unified Arab policy toward the present situation.

As the Soviet Union has eased its emigration policy, and as the United States has adopted at the same time a new policy restricting the immigration of Soviet Jews into the country, thousands upon thousands of Soviet Jews have flooded into Israel. According to reports, 12,000 Soviet Jews went to Israel in 1989, while as recently as 1983, the total number of Soviet Jewish immigrants was no more than 1,320. In January, about 4,600 Soviet Jews emigrated to Israel, the highest monthly figure in the last 20 years. According to the Israeli Immigration Department's estimate, 100,000 Soviet Jews will go Israel this year. The department plans to accept 750,000 Soviet Jews in the next five or six years. In a recent speech Israel's Prime Minister Shamir said: "To accept the large numbers of immigrants, we need a Great Israel." Shamir has also announced the settlement of Soviet Jewish immigrants on the occupied Palestinian land. To this end, Israeli authorities have made a plan to again evict 120,000 Palestinians from the West Bank of Jordan. Obviously the Shamir government is attempting to realize its ambition of expansion into and permanent occupation of the occupied Palestinian land with this "one in and one out" method.

The United States had from the beginning asked the Soviet Union to relax restrictions on emigration, pleading the excuse of "defense of human rights" and asked the Soviet Union to allow Jews "the freedom to

select where they will go." But by 1989 it made regulations restricting the immigration of Soviet Jews to the United States, which means that more Soviet Jews will be immigrating to Israel.

Since last year, at almost every meeting between U.S. and Soviet leaders or foreign ministers, the problems of Soviet-Israeli relations and the emigration of Soviet Jews were brought up. One of Israel's preconditions for resuming Israeli-Soviet relations is that the Soviet Union allow Jews to go to Israel. As revealed in U.S. newspapers, during the Malta meeting last year, Soviet and American leaders discussed the Soviet Union's liberalization of its emigration policy and the United States' consideration of granting the Soviet Union most favored nation treatment.

Faced with Arab and international solemn and just condemnation, both the United States and the Soviet Union have expressed disagreement over Israel's settling of Soviet Jews on the West Bank of Jordan and the Gaza Strip. The Soviet Union has already turned down a U.S. request and has not approved a Soviet-Israeli direct-travel accord. Soviet delegates have asked the United Nations Security Council to call a meeting to discuss Israel's practice of settling Soviet Jews in occupied Palestinian land. But the Soviet Union has explicitly stated that it will not change its policy of letting large numbers of Soviet Jews emigrate to Israel.

Over the last two years or so, the United States has exercised its veto power six times in the Security Council, blocking all draft resolutions condemning Israel's aggressive acts. A resolution calling on Israel to stop settling Soviet Jews on occupied Palestinian land was put to a vote by the U.N. Human Rights Commission, and the U.S. delegate abstained from voting. At this critical moment the PLO has officially asked the Soviet Union not to force Soviet Jews to go to Israel, and to obtain assurances from Israel that it will not settle Soviet Jews on the occupied land. The Arab states have put before the United States and the Soviet Union the just demand that Arab national interests be protected. Now we need to see what responsible actions the United States and Soviet Union will take to stop Soviet Jews from being settled on the Palestinians' occupied land.

EAST EUROPE

Current Tumult Seen as Opportunity for Socialism's Renewal

900ND4524 Beijing SHIH, ZHISHI [WORLD AFFAIRS] in Chinese No 3, 1 Feb 90 pp 10-11

[Article by Yang Hua (2799 5478): "Socialism Is the Historical Choice of the People in All the Countries of Eastern Europe"]

[Text] Editor's Note: 1989 might be called the "Year of Eastern Europe." From the convening of the roundtable conference in Poland in February to the founding of the

National Salvation Front in Romania in December, one wave followed another, each bellow surpassing the last, giving rise to various social turmoil and political changes. The force with which it broke, and the severity of its shock was a rarity in the history of Eastern Europe. What are the reasons for the dramatic changes in Eastern Europe? Where will they lead these countries? What effect will they have on the European and world situations? These are problems about which the countries of the world are universally concerned. China has had friendly intercourse with the countries of Eastern Europe for a long time, and the peoples have established friendly feelings with each other. Naturally, our readers cannot but be deeply concerned about the current turn of events in the East European countries. It was for this reason that this magazine's editorial board especially invited several experts and scholars, who have studied East European problems for many years, to write a series of articles that probe the historical roots of the dramatic changes in Eastern Europe. These articles will be published serially, beginning today, in a column titled "Discussion of Eastern Europe." We hope that these articles will help readers understand from a broad historical standpoint the profound background to the dramatic changes in Eastern Europe and the trend of their future development.

Eastern Europe is a geopolitical concept. It does not mean all of eastern Europe, but rather eight countries located in central Europe and the Balkans, namely Poland, Hungary, the DDR, Czechoslovakia, Bulgaria, Romania, Yugoslavia, and Albania. All of these countries were liberated with the help of the USSR's Red Army during World War II. After the war they all went through national democratic revolutions to take the socialist road. The political division of Europe east and west brought about by the "Yalta system" produced two large Eastern and Western blocs headed respectively by the USSR and the United States. Thus, these countries were jointly termed "Eastern Europe." First Yugoslavia and then Albania left the East bloc. Their circumstances differ from the other six countries; nevertheless, geopolitically, they continue to be lumped together with Eastern Europe. The countries of Eastern Europe are not big, and their populations are not large. They are medium-sized and small countries. The largest, Poland, has an area of 310,000-odd square kilometers and a population of slightly more than 37 million. The smallest, Albania, is 28,000-odd square kilometers in area, with a population of approximately 3 million. Historically, Eastern Europe has been the most impoverished and most frequently war-torn region in Europe. The Balkans are known as the "powder keg" of Europe. Two extremely tragic world wars were ignited in Eastern Europe.

The East European countries have suffered numerous setbacks. Over the course of several centuries, they have been enslaved, exploited, and oppressed by several large surrounding imperialist countries. The Balkan countries of Romania, Bulgaria, Albania, as well as a part of Yugoslavia were ruled for a long time by the Turkish

Ottoman Empire (1290-1922), some of them for 5 centuries. Czechoslovakia and Hungary in central Europe, as well as Poland and part of Yugoslavia were subjects of the Hapsburg Austro-Hungarian Empire (1526-1918), some of them for more than 300 years. Following the unification of Prussia and Germany in 1871, imperial Germany also made this region an important goal for aggressive expansion. Czarist Russia, strategically located to the east, also frequently nurtured hegemonist designs toward eastern Europe. It worked with the Ottoman Empire to the south to take the Balkans, and it worked with the Austro-Hungarian Empire and Prussia to the west to divide Poland three times (1772, 1793, and 1795). Influenced by the French Revolution of 1789 and the bourgeois revolution that swept all of Europe in 1840, the nationalist sentiments of the people of the countries of eastern Europe were awakened, and they launched an arduous struggle for national revival and national independence. The struggle of the east European countries for independence lasted more than 100 years. During these more than 100 years, because of the strength of their enemies and the weakness of the nobles and landlords who led the battle, and of the bourgeoisie, the European countries' struggle for independence was either put down and ended in failure, or compromises were made and goals not attained. It was not until after World War I that most of the countries finally gained independence as a result of the widespread people's revolution ignited by the October Revolution, which hastened the overthrow of the aforementioned four large imperialist countries, and they began to establish their own modern countries.

However, following independence, the people of the countries of Eastern Europe continued to suffer oppression. They were bullied by foreign countries, and were in an abyss of suffering. At that time, an overwhelming majority of the countries of Eastern Europe were still constitutional monarchies under the rule of fascist monarchs. Examples were Horthy (a self-proclaimed regent for the kingdom) in Hungary, Boris in Bulgaria, and Zog in Albania. In Poland and Romania, the fascist military dictators Jozef Pilsudski and Ian Antonescu ruled. Even the bourgeois republic of Czechoslovakia, which had established a French-style parliamentary democracy, was actually a joint dictatorship of large landlords and the grand bourgeoisie. Moreover, their national independence was extremely brittle. They had no choice but to obey the orders of European powers such as Germany, Italy, France, and Great Britain, and they continued to be manipulated and allow themselves to be trampled upon. With the rise of Hitler's Germany and the formation of the German-Italian fascist axis, Hungary, Bulgaria, Romania, and Albania became vassals of Germany and fascist Italy. In fact, they lost their independence. Because of the decadence of the ruling class in their own country and a sellout by the Western democracies, Czechoslovakia and Poland, which had been protected by Great Britain and France, were occupied by the German fascists. (In 1938, Great Britain and France forced Czechoslovakia to sign the "Munich Black

Agreement," which ceded territory to Hitler, dismembering its own country. When Hitler invaded Poland in 1939, Great Britain and France "declared war without going to war.") The independence that the people of the East European countries had won after long struggle not long before, was once again pulverized under the iron heels of the fascists. In World War II, which followed, nearly 10 million people in eight East European countries lost their lives, nearly 6 million of them, or nearly one-fifth of the country's population, perishing in Poland alone. The blood and fire showed the nobles, landlords, and bourgeoisie of the countries of east Europe to be unable to enable their own people to free themselves from a humiliating history and a tragic fate. The various state systems they had established—constitutional monarchies, military dictatorships and parliamentary democracies—were unable to ensure the independence of their own countries, but rather caused the people to be re-enslaved and brought to the brink of peril. History decided that the heavy responsibility of leading a national democratic revolution to enable the countries to obtain their independence and the people to gain freedom could be carried only by the proletariat in each of the countries of Eastern Europe, and by its vanguard—the Communist Party.

Very grave national calamities and cruel class oppression imbued the people of the countries of Eastern Europe with a spirit of struggle and a revolutionary tradition. This was also one of the earliest areas in which socialist ideology and Marxist doctrine spread. The countries of Eastern Europe established social democratic parties as early as the 19th century, and the workers' movement had developed substantially there. However, because of the reformism of the Second International, the struggle of the proletariat was limited to syndicalist goals such as winning higher wages and improving living conditions. It did not develop to the point of winning political power and carrying out a revolutionary transformation of society. Russia's October Revolution stirred a tremendous reaction in Eastern Europe. In 1918, workers and soldiers in Berlin rose in rebellion, overthrowing the Hohenzollern royalty. In 1919 Hungary set up a soviet republic, and in Poland, Czechoslovakia, and other places, the proletariat and working people set off a heroic revolutionary struggle. But all these struggles were defeated because they lacked the resolute leadership of the Communist Party. Propelled by the popular revolutionary tide, social democratic parties in some countries came to power and formed cabinets or held office, however, because of reformist policies and betrayal by rightist leaders, they were shortly driven from power to become in the end an opposition faction in bourgeois parliaments. Some of them even became the tools of bourgeois regimes. Following the October Revolution, under the leadership of the Communist International that Lenin had founded, progressive elements among the proletariat in the countries of Eastern Europe, including some leftist leaders in social democratic parties, hastily

established communist parties. They exposed and criticized the reformist influence of the Second International carried on the historical tradition of the workers' movement in their own country, and continued to lead the proletariat, the working people, in the struggle against the rule of the big landlords and the bourgeoisie. As the dark forces of fascism rampaged and people faced the grave moment of life or death, survival or destruction, they organized "popular fronts" for the broad unification of all democratic forces, including social democratic parties and bourgeois democratic parties for the purpose of closely linking national independence and popular democracy with the achievement of socialism. They received support from people in all walks of life, becoming a vanguard in the antifascist national liberation struggle. In this arduous and brilliant struggle, Communists in all countries of Eastern Europe wrote countless heroic and glorious chapters and performed magnificent exploits that can never be erased. Georgiy Dimitrov fearlessly answered charges in a Hitler court of law, Tito braved untold dangers in the towering mountains of Yugoslavia, and Julius Fucik wrote *Report From Beneath the Gallows* in a fascist prison, etc., etc. The heroic deeds of these and numerous other Communists have become immortal epics in the emancipation struggle of the people of the countries of Eastern Europe. The people of the countries of Eastern Europe also pinned their hopes for national independence and national liberation, as well as for popular democracy and freedom on the leaders of the Communist Party. They also regarded socialism as the inevitable point of return in the enduring struggle to win national and social liberation. In 1945, with victory in the antifascist war and the destruction of Hitler's Third Reich, the countries of Eastern Europe underwent a protracted heroic struggle, which finally brought to an end the old era of humiliation and servitude, and ushered in a new era of independence and freedom that opened the way to socialism. This was a choice that the people of the countries of Eastern Europe made after comparing various theories, systems, and political forces during their protracted struggle, and it was also a great historical advance.

Not only did the taking of the socialist road by Eastern European countries help the independence and development of the countries of Eastern Europe, but it also held extraordinarily important significance for bringing an end to strife in Europe and maintaining world peace. Like a river surging toward the sea, the overall direction of advance of the tide of history cannot be changed; however, in the course of rushing toward a goal, it is difficult to avoid hidden shoals and treacherous reefs, and whirlpools and undertows may appear. Today, as a result of the turmoil and changes in Eastern Europe, some people in the west categorically state that communism has met defeat and socialism is bankrupt. Actually, this is a misreading of history at the very least. Indeed, in the building of socialism, at the same time Eastern European countries that scored tremendous achievements, they also suffered serious setbacks and made serious mistakes. However, in addition to the need for Eastern European countries to summarize experiences and lessons, these setbacks and mistakes are also closely related to their international

position. Following World War II, Eastern Europe was in the shadow of the cold war between East and West. It could not work out survival and pursue development in the midst of the military confrontation between the two large blocs. Superpower hegemony and power politics had an even more serious affect on East European countries. During the past more than 40 years, the United States and the West have conducted a "containment strategy" toward the USSR, and have constantly set their sights on the "liberation of Eastern Europe." For its part, the USSR tightened control of its "large family," requiring the countries of Eastern Europe to take orders from the USSR in domestic and foreign affairs. If they were the least bit disobedient, they would be punished—suffer armed aggression or military occupation. This external climate seriously damaged the national sentiments of the peoples of all East European countries and obstructed their socio-economic development. As a result, not only was the socialist system not able to make the most of its deserved superiority, but its reputation was very greatly damaged. Today, the military confrontation between East and West has moderated, the USSR has proposed "new political thinking," and wants to "renew" and "transform" socialism. It has also encouraged and spurred East European countries to do the same. However, the United States and the West regard this as a "historical opportunity to step up the promotion of "peaceful evolution." They have proposed "going beyond the containment strategy," hoisting the banner of freedom, democracy, and human rights, and preaching a multi-system politically and privatization economically in an effort to use Eastern Europe as the salient for realization of the goal of overthrowing socialism. This is actually a continuation of the cold war under new circumstances, and the countries of Eastern Europe remain in a position of being manipulated and fought over. Such an external situation has stimulated internal conflicts in East European countries, which have given rise to the current dramatic changes. The predicament of the Eastern European countries is very difficult today. The tumultuous situation will be difficult to allay within a short period of time. The socialist road appears rough and tortuous once again, but, in the end, it is the historical choice that the people of the countries of Eastern Europe, beaten down by hardships and warfare, made more than 40 years ago. They deeply believe that only this road can ultimately lead the gravely suffering countries of Eastern Europe toward a bright future.

Yugoslav Official's Objection to Party Split Reported

HK2702025590 Beijing RENMIN RIBAO in Chinese
17 Feb 90 p 4

[Report by Yan Zheng (0917 2973): "(Petar Simic, President of the League of Communists Organization of the Yugoslav People's Army, Stewards Members of the Organization Are Against a Split of the League of Communists of Yugoslavia)"]

[Text] Belgrade, 14 Feb.—General Petar Simic, chairman of the League of Communists of Yugoslavia (LCY)

committee of the People's Army, stressed today that LCY members in the army cannot accept the split of the LCY into various political parties and a change of its name from LCY to a social democratic party.

General Simic made these remarks in his report delivered at a meeting of the LCY committee of the People's Army. He pointed out: The suspension of the 14th LCY Extraordinary Congress shows that the LCY is not united and it is far more difficult than expected to straighten things out in this field.

Although the situation of the LCY organizations in the army is satisfactory, General Simic continued, there are still unstable factors because of the influence of the entire society and general situation of the LCY.

Lastly, General Simic said that the LCY is now experiencing a hard time, but it will continue to exist. In its long history of 70 years, the laboring people, under the leadership of Tito, won victories in the years of wars as well as peace. The leaders of the LCY in the People's Army urged the LCY Central Committee to let members of the whole party decide by vote the major issues concerning the nature and internal relations of the LCY, the results of which will produce a great impact on the 14th extraordinary congress.

Romanian Decree on Social Order Reported

(H 771,2805790 Beijing XINHUA in English
0227 GMT 24 Feb 90)

[Text] Bucharest, February 23 (XINHUA)—The Provisional Council of Romanian National Union today approved a decree to protect the state organs, political parties and organizations.

The Romanian news agency ROMPRES reported today that the decree is aimed at preventing any future violence, maintaining social order, the national security and stability, and ensuring the normal operation of economic life.

The council today held its second meeting to sum up and review the violence that occurred on February 18. Deputies to the meeting called for a careful investigation of the violence and punishing the troublemakers. ROMPRES said.

But ROMPRES did not give details of the decree.

Last Sunday, protesters burst into the government headquarters in the Victory Square. They smashed windows, damaged furnitures and held Vice-Premier Gheorghe Voiculescu hostage for several hours.

Commentary on Unique Style of Beijing's Zhang Baifa

SHENJIN²² (1 Hong Kong At. No. C 11140 CHINA;
[0110] ANGL 1) in Chinese No. 20²³ In Day No. 66, 70

[Article by Xia Yuping (1115 7183 1627) "Zhang Baifa
Continues To Rule His Mercedes Benz"]

[Text] If he were merely Beijing's vice mayor in charge of
day-to-day affairs, he would not be this famous.

As vice chairman of the organizing committee for the
11th Asian Games and commander-in-chief of the
project to build the stadium for the games, Zhang Baifa
[1728 4102 4098] is a rising star in China today. As the
Asian Games, the first major continental sports event
hosted by China, draws near, he has become a celebrity.
His name associated with just about everything related to
the Asian Games. Whenever they come across something
that has to do with the games, people invariably say:
"Ask Zhang Baifa."

The Sole Surviving Model-Worker Mayor

Zhang Baifa is a highly special character in Chinese
politics. He started out as a worker and began his ascent
as a model worker. In the 1960's, particularly during the
Cultural Revolution, it was almost fashionable for model
workers to pursue careers in politics. At the time, count-
less model workers, peasants, and soldiers took up jobs
at Zhongnanhai and in various provincial capitals,
including Chen Yongguo [7115 3057 6311], Lu Yulan
[3712 3768 5695], Wei Fengping [1414 7685 5391], Wu
Guixian [0702 2710 6343], Li Suwen [2621 4790 2429],
Sun Jian [1327 0246], and Wang Chonglin [3769 1504
0243]. However, once the "Red storm" blew over, these
once-famous people disappeared without a trace. Few
managed to survive in the political circle and even fewer
achieved prominence. Foremost among the latter must
be Li Ruihuan [2621 3843 3883], who joined the party's
inner circle after being made one of the six members of
the Standing Committee of the Politburo at the 4th
Plenary Session of the 13th CPC Central Committee.
One rung down are probably Ni Zhifu [0242 1807 4395]
and Zhang Baifa. If you are looking for someone who
occupies a high position but has no bureaucratic airs,
never fails to come up with a witty remark as soon as he
opens his mouth, and has the common touch, it has to be
Zhang Baifa.

Li Ruihuan Was His Senior Fellow Apprentice

Li Ruihuan and Zhang Baifa served their apprenticeship
together. At the time both were in the construction
business, Li Ruihuan as a carpenter and Zhang Baifa
laying reinforcing bars. The construction of the Great
Hall of the People in Beijing in 1958 gave them a chance
to shine. One solved the technical problem of detail
drawing while the other overcame the difficulty of strad-
dling the steel frame. Together they rose to fame like
Geminis.

These two people, who served their apprenticeship
together, have often been brought together by fate in
intriguing ways. After both were promoted to cadre on
the same day, they frequently crossed each other's path
as they changed jobs. In early 1970's, Li Ruihuan was
transferred from Construction Company No. 3 in Bei-
jing and made party committee secretary at a timber
mill. Meanwhile, Zhang Baifa was transferred from the
party factory and made party committee deputy secre-
tary at Construction Company No. 3. In the early 1980's,
Li Ruihuan was transferred from Beijing to be the mayor
of Tianjin and Zhang Baifa was moved from the State
Construction Commission to be the vice mayor of Bei-
jing. In addition, these two men are fellow villagers, their
villages, Xianghe, Hebei, and Baodi are only 20 li apart.
Even more extraordinary, both their wives are called
Wang Shulan [3769 3219 5695] and were born on the
same day and in the same month and year. Fate saw to it
that there is just one difference between Li Ruihuan and
Zhang Baifa. While each has two children, the former
has two sons, while the latter has a son and a daughter.

Rescued the Children of a Number of Senior Cadres

Zhang Baifa is an "upstart." Unlike some other models,
he did not have a meteoric rise in the politics of the
Cultural Revolution. After toiling for years at construc-
tion sites, he became a leader of a young shock brigade
and then the head of a construction company. Then
came a succession of other assignments, including
deputy director of the Beijing Construction Work
Bureau and deputy director of the Construction Bureau
of the State Construction Commission. He was
appointed vice chairman of the State Construction Com-
mission at the age of 39 and became Beijing's vice mayor
in charge of urban construction at the age of 40. In 1988
he was again promoted, this time to vice mayor in charge
of day-to-day affairs.

Reports tell of an anecdote about Zhang Baifa during the
Cultural Revolution, which may have something to do
with his steady climb up the bureaucratic ladder. During
the Cultural Revolution, Construction Company No. 3,
then under his leadership, was building in Shixun (the
site of Auto Works No. 2) in Hubei. In the capital, the
children of some senior cadres were in danger of being
forced to go and work in the countryside and mountain
areas as their fathers came under attack. Although he
hardly knew them, Zhang Baifa saved them by inviting
them to work in his company. Several years later, when
Construction Company No. 3 returned to Beijing upon
completion of the construction of Auto Works No. 2, he
again transferred back to the capital the permanent
registered residence of these people. After the overthrow
of the gang of four, the children of senior cadres who
asked to be transferred out of the construction company
in search of greener pastures were all given the green
light. Zhang Baifa did not try to stop a single one of
them. Reportedly, this generous act on his part won the
hearts of many an old man. Like Deng Xiaoping, who
constantly remembers the workers who quietly helped

him and his family when he was down on his luck in Jiangxi, many elderly cadres find Zhang Baifa trustworthy.

Working the Tennis Circuit

The fact that he frequently plays tennis with Wan Li [X001 6849] must be considered part of his political credentials.

For years Wan Li was the capital's vice mayor for urban construction. Both Li Ruihuan and Zhang Baifa had been his capable second-in-commands. After Wan Li became vice premier of the State Council, he continued to take an interest in every major construction project in Beijing and naturally became a strong supporter of Zhang Baifa. The story of how Zhang Baifa became a tennis fan sheds some light on the degree of intimacy between the two men.

Zhang Baifa has been a sports enthusiast since childhood. As leader of a young shock brigade, he wrestled with workers wherever he was free until he injured his shoulders. At the time, he loved Chinese wrestling and basketball; he was a good right forward. In 1980, just days after he became vice mayor of Beijing, he called on Wan Li for instructions on his work. Wan Li was playing tennis at the time. As Zhang Baifa stood outside the court watching Wan Li, he was sorely tempted to try his hand at the sport. The next evening he was back at the Xiannongtan tennis court, clad in a borrowed sports outfit. Hitting the ball with the racket given him by Wan Li, he fell in love with tennis then and there. Henceforth, he always makes time to play tennis twice a week, no matter how hectic his official schedule. While playing tennis, he also asks for instructions from Wan Li on his work. Although his posture was not totally correct, he developed a powerful serve after being coached by top players on the national tennis team. For several years in a row he was either the champion or first runner-up in the seniors tennis tournament in Beijing.

There are several tennis stars in China's political circle, such as Hu Qili [5170 0796 4519], who was recently dismissed, Tian Jiyun [3944 4764 0061], Li Tieying [2621 6993 2503], Lu Zhengcao [0612 2973 2347], and Liu Jianzhang [0491 1696 4545], as well as Wan Li. For Zhang Baifa, therefore, tennis is more than an active form of relaxation. It is an excellent opportunity for him to cultivate political and social ties. No wonder they all say that Zhang Baifa "is superhuman."

Enjoying Great Popularity

According to his former secretary, anyone who walks into Zhang Baifa's office, whether he is a minister or an ordinary citizen, is willing to talk. Zhang Baifa enjoys great popularity. He gets along well with the elderly cadres and is on excellent terms with some ministers in the inner circle. He also has close friends in the democratic parties. Between him and the late Panchen, the great Buddhist leader, for instance, there was an unusual friendship.

Serving as a Bridge Between the Great Buddhist Leader and the Top Level of the CPC

The mayor met the religious leader while they were working on the same project. Panchen was in Beijing for the construction of a Buddhist college. Zhang Baifa, who was responsible for the project, did his best. Actually, he always does, for he is a loyal person. He would try his best to accomplish anything he promises to do, whether or not the person he is dealing with is an official. Panchen liked his frank, direct, and optimistic personality. He told him, "Let us be friends." Zhang Baifa readily agreed. "Isn't it nice to be a friend of the vice chairman of the Standing Committee of the NPC [National People's Congress]?" Henceforth, whenever Panchen could not sort out a problem, he would go to Zhang Baifa to pour out his heart. Their two families also became as close as relatives. Every year Zhang Baifa took his wife, daughter, and grandson and Panchen's entire family on a trip. Soon Panchen's opinions on the governing of Tibet and his own personal experience found their way to the higher levels through Zhang Baifa. He probably did not know that Zhang Baifa served as a bridge of understanding between him and the highest levels in the CPC.

In early 1989, before leaving Beijing to attend the opening ceremony of the Great Stupa in Tibet, Panchen telephoned Zhang Baifa to invite him and his family to join him on a spring trip after he returned to Beijing. Half a month after his departure, Zhang Baifa even received a sheep sent to him by Panchen from Tibet. Each year Panchen would have fat sheep raised on his territory slaughtered to be sent to his friends in Beijing as a Spring Festival present. Yet three days after Zhang Baifa got this present, word was heard of Panchen's sudden death. Zhang Baifa's daughter heard the news first, but put off telling her father for fear that it was more than he could take. Even today, Zhang Baifa would heave a deep sigh whenever Panchen's name was mentioned. "Why do the good always die young?"

"Mighty Dragon No Match for Snake on the Latter's Turf"

It is hard to be a Beijing official. He is charged with the welfare of the capital's citizens and responsible for the food, clothing, housing, and transportation needs of tens of millions of people. Moreover, he has to service the forest of buildings in the capital that house central and national agencies and military headquarters. As for the ministers and military top brass, they are all on an equal footing with the mayor of Beijing, and many of them are actually higher-ranking than he. Without the support of the CPC and various ministries, a Beijing official would have difficulty getting things done. Nor can he afford to alienate these officials.

Things are particularly hectic for the mayor in charge of urban construction. He is in an even worse bind. Beijing is an ancient metropolis with a long-overburdened infrastructure. Electricity outages, water cutoffs, malfunctions in the gas and heating systems, and traffic jams are commonplace. When they occur, the various central

agencies complain loudly and the citizens curse. The only thing Zhang Baifa can do is to assume responsibility. During the last few years Beijing committed itself to spending huge sums of money to repair the roads and build overpasses, waterworks, and a power plant. A pipeline will also be built to bring natural gas into Beijing. All this has enabled Zhang Baifa to breathe a little easier.

But there are also occasions when he will not go for it. He can be tough when the other side, whether an individual or agency, puts on airs or does not fulfill its obligations. A district in Beijing has gone in for urban renewal. It so happened that among the row of one-story houses slated for demolition was a quadrangle inhabited by four generals and three ministers. These people adamantly refused to move, forcing Zhang Baifa to hire a lawyer and take them to court. Zhang Baifa has one trump card when dealing with uncooperative departments. In the winter of 1988, reports say, a top agency kept passing the buck and failed to solve the problem of coal shortages. Zhang Baifa simply cut off its heat supply for a dozen hours. As they say, "A mighty dragon is no match for the snake in the latter's old haunts." Such practices may be unconventional, but they do work when tackling people and agencies used to acting bureaucratically.

His Bluntness a Rarity in Political Circles

People find Zhang Baifa's bluntness most commendable. Since he does not mince words, you would think he has never picked up the habit of mouthing bureaucratic jargon. His style is a rarity in Chinese politics and gives him a special character. Insiders often say, "Only Zhang Baifa and nobody else can say that kind of thing and get away with it." His highly special personality has protected him in some ways. Maybe this is what makes him such a shrewd politician.

In Beijing's drive to scale back capital construction, the most intractable part remains central government projects. Zhang Baifa has drawn up a list to show that the scale of capital construction in Beijing had long been grossly overextended. "The original plan calls for the building of 38 million square meters. Already that has increased to 44 million square meters. By the time we approach the Planning Bureau for land, it will be 64 million square meters. Even if we do not take on a single extra project, what we have in hand will not be completed for another five years." But he made it quite clear, "We cannot slash the projects. The central government will send a big shot here." The reason is that at least half the projects in question belong to the central government. Reportedly, he proposed to the central work group a list of projects to be axed. At the top of the list is the Capital Hotel. The Beijing Planning Bureau was firmly opposed to that project, which, however, had the backing of Wan Li, Hu Qili, and Tian Jiyun. Zhao Ziyang even instructed in writing, "Hurry up with the project." The outcome is unknown. In any case, the Capital Hotel has effectively opened for business. As a matter of fact, Zhang Baifa learned a profound lesson during his tenure

as vice chairman of the State Construction Commission. "Under China's existing investment system, every year they try to hold the line on capital construction, and every year it gets bigger." He does not want to say things against his conscience.

Continues To Drive His Mercedes Benz

He is also unconventional in the way he uses his car. Ever since the CPC Central Committee handed down an order prohibiting government leaders from riding imported sedans, a "car-swapping fever" has gripped Beijing as people dumped 200 to 300 Mercedes Benzes. Yet Zhang Baifa continued to run around in his yellow Mercedes Benz 280. He said, "My Benz was a present from foreigners to the Asian Games. They gave us two altogether. I am the commander in chief of the Asian Games building project, the top man. If I do not get to ride in a Benz, who does?" Let us be realistic and not create new waste, as the CPC Central Committee has said. Actually, the citizens have long noted that replacing the Mercedes Benzes with Audis, less than one percent of whose parts and components are Chinese-made, is mere formalism, like putting old wine in new bottles.

Being put in charge of the Asian Games, so says an article, is the most glorious chapter in Zhang Baifa's life. In terms of scale of construction, the Asian Games are indeed much larger than any project he has participated in or put together. In terms of difficulty, the games are also in a class by themselves given the modernization, electrification, and computer high technology involved. Besides, Zhang Baifa is responsible for fund-raising, logistic services, transportation, and security, as well as construction. At one point, fund shortages alone turned him into a master specializing in "aims begging." A bigger headache is that he is the target of public criticisms. Time and again the Beijing People's Congress and NPC deputies have queried whether the Asian Games can pay their own way. It was to the NPC that he made this tragicomic pledge, "If the Asian Games cannot be held as scheduled because of delays in preparing the site, I would jump down from the highest point in Beijing, the top of the 51-story, 208-meter-high Jinguang Building."

Well, he does not have to do that now. Stadium construction is proceeding feverishly. The fact is that Zhang Baifa is adept at putting together big projects in a hurry. The Chinese Communists have a long history in mass movement. Thus, a confident Zhang Baifa said long ago, "Stop the invading army with generals and check the flood with land." Moreover, the most important parts of the project have all been handed over to troops under his own control, those people would not let him down. This, too, is an advantage that other mayors or ministers do not have. As soon as he arrives at the construction site, he is surrounded by acquaintances. You cannot hide any dark secrets of the trade from him. Still, Zhang Baifa has expended a lot of energy on the games. Zhang Baifa, who boasted he was never ill, has developed heart disease over the games and has been hospitalized twice.

Next Target: Olympic Games

Can we predict his future political fortunes? When Li Ruihuan was elected a member of the Politburo in 1987, there were already rumors that Zhang Baifa would be transferred to the capital sooner or later. Reportedly, Li Ruihuan even asked Zhang Baifa whether he would like to succeed him in Tianjin. Even earlier it was said that he was recommended for a job with the All-China Federation of Trade Unions by somebody. Apparently, Zhang Baifa has turned them all down. As the Asian Games approach, his ambition seems to get clearer and clearer. He has indicated many times that his future would be associated with the Asian Games and the Olympics. According to well-informed sources, he has already asked for a "battle assignment" from Li Peng and Jiang Zemin: "A military order can be issued now. It will not cost you a penny. Let me quit the mayorship and put together a team for you to start preparing for the Olympic Games."

Enhanced Concept of Class Struggle Advocated

HK2602093690 Beijing JIEFANGJUN BAO in Chinese
8 Feb 90 p.3

[Article by Long Piquan (7893 0012 3123): "Enhance the Concept of Class Struggle"]

[Text] As a class, the exploiting class has been eliminated in China, but class struggle still exists in a certain scope and is likely to sharpen under certain conditions. Under such circumstances, the concept of class struggle is still indispensable. In recent years, however, some comrades have not often talked about class struggle in practical work. They have even discarded the method of class analysis and considerably blunted their concept of class struggle. Judging by the method of thinking, there are no more than two reasons for this: First, ideological one-sidedness. When observing problems, some comrades tend to be aware of only one aspect and to be ignorant of the other, judging things simply by their appearance instead of the essence. They see only that class struggle has apparently eased to some extent in the past few years, but fail to see that internal and external hostile forces are still carrying out subversive activities against China's socialist system by various means. They see only the corrupt phenomena within the party, but fail to see that a small number of hostile elements are plotting to overthrow the leadership of the party under the pretence of anticorruption. They see only young students' good

intentions during the disturbance some time ago, but fail to see that a small number of bad people were utilizing young people's weak points of lacking political experience to achieve their treacherous purpose from behind the scenes. They see only the need for socialism to promote democracy, but fail to see that the hostile elements stirred up turmoil under the banner of democracy in an attempt to overthrow the people's political power. In the disturbance during spring and summer last year, an extremely small number of bad people took advantage of the weak points among many people in our ranks, such as one-sided methods of thinking and blunted concepts of class struggle, to try by every possible means to sow dissension between the broad masses of the people on the one hand and the party and the government on the other. Taking advantage of our party's defects, they instigated students to demonstrate and incited the masses to voicing support, resulting in a turmoil and a counterrevolutionary rebellion. Second, thinking in absolute terms and tending to go to extremes. In the decades before the 3d Plenary Session of the 11th CPC Central Committee, under the guidance of "two" ideas and "taking class struggle as the key link," the central task of economic construction was obstructed and undermined and a large number of cadres and people were hurt. It is entirely necessary to negate this erroneous guiding idea and principle. However, while negating "taking class struggle as the key link," many comrades have gone to another extreme. They even dare not talk about class struggle, as if talking about class struggle were an ultraleftist manifestation; they are afraid of making "leftist" mistakes again. This is also an important reason why the concept of class struggle is blunted among many comrades.

In fostering the concept of class struggle, the key lies in arming people's minds with Marxism and the Marxist-Leninist theory on class struggle. In his speech at the 5th Plenary Session of the 13th CPC Central Committee, Comrade Jiang Zemin pointed out, "In their understanding and work, some of our comrades often go from one extreme to another, vacillating between this or that one-sidedness. This is because they fail to master materialist dialectics." Only by studying Marxist philosophy well and mastering the materialist dialectical method of thinking is it possible, in complicated class struggle, to see through appearances to get to the essence, to prevent various kinds of one-sidedness, to neither expand nor reduce the scope of class struggle in socialist society and, while concentrating our efforts to grasp economic construction, to bear class struggle in mind and push forward socialist reform and construction.

NATIONAL AFFAIRS, POLICY

Analysis of Rectification of Industrial Structure

9004102404 Beijing JINGJI LILUN YU JINGJI
GUANLI [ECONOMIC THEORY AND BUSINESS
MANAGEMENT] in Chinese No 6, 28 Nov 89 pp 23-40

[Article by Li Liang (621 6852) cadre of the Coordination Department of the State Planning and Economic Commission. "On Rectifying and Improving the Industrial Structure"]

[Text] *The writer thinks that the main contradictions in China's industrial structure are its imbalance and backwardness. Proceeding from China's specific conditions and development goals, we should try to resolve these two structural contradictions phase by phase and step by step, striving to rectify the structural imbalance while maintaining macroeconomic stability and push the development of the industrial structure toward more advanced levels.*

1. Contradictions in China's Industrial Structure in the Course of Economic Growth

The basic obstacles to China's economic growth are contradictions in the industrial structure, namely, the structural imbalance and backwardness of the industrial setup. The so-called structural imbalance refers to some irrational factors in the production system which are seriously incompatible with market demands, which causes structural price rises and unstable and irregular macroeconomic performance. To a certain extent, these factors can be overcome in a short period by properly readjusting the output mix and the demand pattern. Therefore, structural imbalance is what must be corrected in our plan to rectify the industrial structure. The so-called structural backwardness refers to certain factors in the production system, formed over a long period of time in the course of industrial development, which seriously hampers the technological progress of production, the improvement of labor productivity, and sudden changes and leaps in economic growth. Compared with the industrial structures of the advanced countries, these factors are indicative of our serious backwardness, and urgent and unconventional steps and measures are needed to change them. Unless these factors are overcome, they will remain a potential problem to maintaining macroeconomic stability. Therefore, structural backwardness is what we must change by replanning our industrial structure.

The following are the main manifestations of the structural imbalance in China's production system in the course of economic growth.

First, the industrial production pattern is far from meeting the market demand pattern. This failure is manifest on three levels: (1) Owing to the excessive growth of total social demand, the market demand pattern has gone far ahead of the production pattern, beyond China's ability to meet in its present stage of

economic development. Because of China's weakness in stimulating accumulation, it has been unable to curb consumption demands effectively. According to statistics, between 1984 and 1986, the cash income of urban residents available to buy things and pay for services increased by 102.5 percent, but the net output value of industry, the building trade, transport services, and commerce increased only 80.5 percent in the same period. The inevitable result was consumers demanding more and better goods than could be supplied, which led to "synchronous market shocks" and pushed inflation up. (2) Because China has long pursued a development strategy that stresses quantitative growth to the neglect of economic efficiency and market demand, and because of the long influence of a sellers' market situation, many products are manufactured in a rough and slipshod way, and quality is poor. In the face of rapid market and consumption changes, the present product mix leaves much to be desired in designs, varieties, specifications, and quality. (3) In the product mix, some items are in short supply while others are overstocked. Here we are referring to the contradiction between shortages and backwardness caused by improper planning. There is also the contradiction between shortages and overstocking as a result of structural backwardness. On the one hand, energy, power, and raw and semifinished materials needed for industrial development are in short supply; transport, postal and telecommunications, and other basic industries and service facilities are seriously backward; applicable technologies, advanced technologies and technologists, and managers are critically inadequate, and quality and brand-name products and products to meet the new consumption demands are in short supply. On the other hand, low-level processing industries have an excessive overcapacity. In some cases, due to shortages in power and raw, semifinished materials supplies, the processing industries have to let idle much of their production capacities. In other cases, industries whose products are already in excessive supply still expand blindly, and their slow-selling products are piled up, which is a direct waste of resources. In addition, the piling up of large quantities of inferior and obsolete products, the low capacity to assemble some imported durable consumer goods, and the serious phenomenon of work suspensions for lack of materials are directly causing losses in foreign exchange.

Second, the distribution of resources is producing poor results because of the way it is structured. In the distribution of industrial resources, attention should be paid not only to short-term returns, but even more to middle- and long-term development benefits, and consideration should be given not only to local interests but also to macroeconomic results. At present, distribution of resources in China is faced with such problems as blindness, egalitarianism (scatteredness), and eagerness for quick success and instant benefit. First of all, with the changes in the investment system and the income distribution mechanism, there are more extrabudgetary funds and subject investors, and competition for resources has become a common phenomenon. Secondly, because

there is no clear-cut national industrial policy to serve as a guidance, the government is giving support to too many projects, fails to focus on major ones, and yields to egalitarian pressure in distributing resources, which results in the scattering of resources and failure to realize the benefit of large-scale production. Finally, the reform has inspired people's desire for profit, and to invest in manufactured goods which command high prices and big profits is the basic motive of enterprises. The excessive and blind expansion of the processing industries has aggravated the shortage of resources, and the infrastructure (transport, postal and telecommunications services, urban public utilities, and basic science research institutions), export industries, energy industries, young and small industrial units, and education, which require state support, cannot be guaranteed the resources they need.

Third, similar production structures are set up in different departments and areas. Because of the lack of scientific guidance in China's regional and industrial planning, the departmental and regional forces created by the system, and the mutual boost between the seller's market and the "large-and-all-inclusive and small-but-all-inclusive" industrial organizations, areas, trades, and enterprises have rushed to invest in processing industries, particularly the town and township enterprises which in recent years have expanded blindly, paying no attention to technological conditions, product quality, and management. The result is duplication in construction and production and "battles" for market and resources. Moreover, because of our lack of experience and improper management in foreign trade, the phenomenon of duplicate and blind imports is also quite serious. While importing hardware, we have overlooked the introduction of software and neglected the digestion, assimilation, popularization, and enhancement of imported technology, and, as a result, domestic resources are spent on useless imports. This has on the one hand aggravated the shortage of domestic resources, and on the other hand caused the production structure to develop in an even, scattered, and overlapping way without the formation of dominating new industrial groups and areas. The phenomenon of duplicate production structures is related to the lack of a well-developed commodity economy, but its direct cause is mistakes in China's policies regarding various industrial departments and regional industrial distribution. It has engendered a rampant protectionism among departments and areas, as well as hindered coordinated industrial growth and normal macroeconomic operations.

Fourth, the import and export trade structure is not linked with the domestic industrial structure, which has aggravated the imbalance between supply and demand in the domestic market. Generally speaking, a country's import and export structure should reflect the state of its domestic industrial structure, help improve the domestic supply and demand situation, and spur domestic industrial growth. However, China's import mix is of a rather low order, contributes little to domestic production, and contradicts the country's import substitute policy. The

export mix is also of a low level and aggravates domestic shortages of goods. Of China's total exports, primary products make up a very large proportion, and almost all the commodities exported each year with huge state subsidies are commodities in short supply at home. This contradiction, caused by China's import and export policy, has no doubt aggravated the contradiction in the domestic supply and demand pattern.

Fifth, industrial income is structured unfairly. Generally speaking, all industries are equal in the market, and their differences lie in the investments involved. In China, however, while the distribution of industrial resources is egalitarian, industrial income is very unfairly structured, which is manifest in product prices, profit level, and the industrial, social, and area factors of the income policy. During the Sixth 5-Year Plan, we readjusted the "three-low and three-high state pricing system," which had been formed over a long period of time, but the result was to varying degrees offset by the unreasonably big price gaps. The present industrial income policy still varies on the basis of social (ownership) and area considerations, favoring state-owned organizations, giving preferential treatment to the special coastal zones, and discriminating against nonstate-owned units and the interior areas. Because of the unfair industrial income structure, it is unavoidable that macroeconomic operations are showing contradictions of one kind or another.

As shown by the analysis, in the course of China's economic development, the imbalance in the industrial structure is a serious obstacle to near-term macroeconomic stability. Our policy on readjusting the industrial structure should be aimed at eliminating this obstacle and implemented together with curbing the growth of total demand, inflation, and price control. Such a structural readjustment policy should focus on near-term readjustment of the demand pattern.

The following are manifestations of the backwardness of the industrial structure in the course of China's economic growth:

First, the foundation of the primary industry (agriculture) is weak. China's agricultural problems are manifest mainly as: (1) The contradiction between low agricultural labor productivity and insufficient investment. The increase of agricultural labor productivity depends on agricultural investment, particularly in basic agricultural facilities, agricultural machinery, chemical fertilizers, and agrotechnical personnel. However, because of the long-standing price scissors and the unreasonably large price gaps that have occurred in the reform, agricultural production is less profitable, and agricultural investment has been reduced by the state, the localities, and the peasants. (2) The contradiction between shortages of agricultural and sideline products and the price reform. Either increasing or decontrolling the prices of the agricultural and sideline products in short supply will have a major impact on the life of urban residents and the burden of subsidies on the state. This long-standing pressure has hindered the implementation of price

reform. (3) The critical contradiction between China's growing population and shrinking cultivated land and insufficient grain production. It is estimated that by the year 2000, China will have a population of at least 1.25 billion, and cultivated land is being occupied for non-agricultural purposes at a rate of more than 5 million mu each year. Taking this and other causes into consideration, it will be very difficult to increase grain production from the present 800 billion jin to 1 trillion jin by 2000. Even if this goal can be achieved, the per capita consumption of grain will be only about 800 jin, roughly the same as in 1984.

Second, the insufficient development of the secondary industry not only adversely affects the development of the primary and tertiary industries, but also increases the pressure on the reform and directly impedes the readjustment of the industrial structure as a whole. Ours is a country with a surplus in manpower, but the number of workers in the tertiary industry is very limited. The proportion of tertiary industry workers in the total number of people employed was 9.3 percent in 1975, 11.6 percent in 1980, and 16.0 percent in 1985. According to the first Clark's law, the development of industry and agriculture in depth and breadth cannot be without the support and urging from well-developed commercial circulation, informational exchange, consultative services, currency accommodation, and repair and other services. With the rapid development of the commodity economy in China, the lag of tertiary industry is becoming all the more obvious.

Third, communications and transport, energy, raw and semifinished materials industries, basic facilities, and other "bottlenecks" have become the structural pitfalls to reform and development. Transport and post as well as telecommunications are given high priority for development. Yet between 1979 and 1985, while China's gross social output value increased at an average annual rate of 10.3 percent, the output value of the transport and postal and telecommunications services increased only 9.4 percent each year. At present, the combined capacity of all transport services can only handle 60.7 percent of the freight volume, and passenger trains on major railway lines are overloaded by an average of 40 percent, sometimes as high as 70-80 percent. Shortages in energy and raw and semifinished materials have caused difficulties for other production developments, as they cannot "make bricks without straw." Though China has made energy a priority in capital construction, investment is dropping proportionally. The proportion of investment in the state-owned energy industry in the total investment in capital construction averaged 20.4 percent during the Sixth 5-Year Plan, as compared with 20.9 percent during the Fifth 5-Year Plan. As a result, energy production has increased at a much slower pace than the increase in national income, energy's lead is falling, and so is its elasticity coefficient.

If we should look for causes of macroeconomic instability from development, we may ultimately find that all have some relationship with "bottlenecks." China is a

populous country. Our enormous consumption demand and limited supply capacity have formed a striking contrast. If there are loopholes in the management of production requirements, regulation of the price system, and management of circulation, then the macroeconomic instability may come out into the open. Since 1979, we have readjusted the historically lopsided development of heavy industry. Before the 3d quarter of 1984, the "bottleneck" problem had become somewhat eased. However, the expansion of social demand and the relaxation of macroeconomic policies, which began in the fourth quarter of 1984, have caused the super-high-speed growth of the processing industries and shortages in energy, transport, and raw and semifinished materials. The rising prices of raw and semifinished materials have greatly boosted the general price level.

Fourth, the backwardness of China's industrial composition and the inferior product quality have made it difficult to quickly raise the level of total supply. The backwardness of China's industrial composition is manifest in the following. (1) The backwardness of the equipment industries, including the machinery and electrical industry and the iron and steel industry. Compared with similar products of the developed countries, China's machinery and electrical products are generally one to two (or even more) quantitative grades lower, 20 years behind in technological standards, and about 10 percent lower in efficiency. China's iron and steel industry is quantitatively inadequate and low in product variety and quality. In the past few years, nearly 20 million tons of rolled steel, about one-fourth of the domestic demand, has been imported each year. (2) The weakness of new industries such as the microelectronics, biological engineering, new materials, and optical fiber communications industries. Many new industries are nonexistent in China. (3) The irrational structure of industrial organizations. For example, in China's machine-building industry, the specialization coefficient of the four major processes, namely, casting, forging, electroplating, and heat-treatment, is only 26-27 percent. The specialization coefficient of China's business organizations is only 26-27 percent. China's traditional model of "an enterprise running a community" is difficult to change in the near future. The merging of enterprises, formation of enterprise groups, and other effective developments still need some groundwork to be laid.

The above analysis shows that structural backwardness is a potential hindrance to middle- and long-term macroeconomic stability and growth, and that it will expose itself gradually in the course of development and aggravate the near-term imbalance of the industrial structure. This contradiction is an accumulation of China's long-term development problems, and cannot be eliminated by short-term policies. It must be included in middle- and long-term plans to be solved step by step.

II. Comprehensive Improvement and Rectification of China's Industrial Structure

1. Difficulties in the Comprehensive Rectification and Improvement of China's Industrial Structure

In the above we have analyzed the two contradictions in China's industrial structure, which must be solved once and for all. It is by no means easy to improve and rectify the industrial structure in a comprehensive way, and we may face a series of difficulties.

There are many factors within China's industrial system that hinder improvement and rectification of the industrial structure. (1) China's enterprises in general are technologically backward and lack the drive for technological renovation. As a result, it is difficult for China's industrial structure to change from the heavy industry phase into a fine-processing and technology- and knowledge-intensive phase. (2) A certain restricting relationship exists between China's production organizations and the state bureaucracy, which makes it difficult for the production factors to shift to "high income" and "high productivity" fields. Therefore, the market mechanism cannot play an effective role in changing the industrial structure. (3) China's enterprises have no qualified managerial and administrative personnel. The spirit of entrepreneurs with the courage and ability to blaze new trails is lacking, which is also a difficulty in improving and rectifying the industrial structure.

There are many difficulties in improving and rectifying China's industrial structure. From a macroeconomic viewpoint, we think that the following problems are very troublesome.

First, there is the difficulty in changing China's dual economic structure. China's rural work force is moving into nonagricultural production. This is the general trend of the evolution of the economic structure. However, it poses a big problem for basic urban facilities, the basic industries, and money supply. Before 2000, more than 100 million rural workers will move into nonagricultural production, and it will be an extremely heavy burden to provide them with the object, means, and place of work and solve the problems of equipment, fuel, power, plant buildings, urban facilities, and so forth. According to calculations by Liu Suinian [2692 9536 1628], if each worker costs 20,000 yuan, a total investment of 2 to 3 trillion yuan will be needed. That is beyond the country's ability.

Next, there is the contradiction between the need to remedy the "bottlenecks" and the shortage of funds. China has an arduous construction task to correct the "bottlenecks." In any country, economic "bottlenecks" cannot be removed without financial support. But China's revenue and expenditure pattern is highly "solidified" with little room for maneuver, which, to a considerably large extent, restricts the readjustment of our industrial structure.

Then, there is the contradiction between the improvement of industrial standard and the rigidity of the employment structure. The improvement of industrial standard calls for technological progress and better management, which dictates that we must break away from the traditional social concept of full employment and the traditional "low wages-equal benefits-full employment" pattern. However, the heavy and inescapable population burden will make it difficult for us to make any change.

Finally, there is the contradiction between the rationalization of regional industrial distribution and the rigid revenue structure. China's regional economic development is very uneven. Unless the regional structure is readjusted completely, it is difficult to have a unified market and make full use of regional resources. However, the regional revenue pattern is basically solidified, and changing the regional industrial distribution may lead to a drop in revenues, which is hard to accept.

Moreover, it should be pointed out that the improvement and rectification of the industrial structure is also faced with a grim inflation situation. Against a background of macroeconomic instability and price fluctuation, the yardstick for the allocation of resources is inaccurate and unfair, the income-distribution relationship is confused, and it may be difficult to rectify and improve the industrial structure in a scientific and accurate way.

2. Setting Goals for Rectification and Improvement of the Industrial Structure

The task to improve and rectify China's industrial structure is arduous and faced with many difficulties. In setting goals for the task, we must take all the factors into consideration, insure macroeconomic stability while rectifying and improving the industrial structure, and resolve the two contradictions in the industrial structure stage by stage and step by step. Therefore, the overall objective in improving and rectifying China's industrial structure is very clear, which is, proceeding from China's present stage of development, the specific circumstances and conditions in China, and the strategic goals of China's macroeconomic development, to rectify the imbalance of the industrial structure while maintaining macroeconomic stability and push the development of the industrial structure toward more advanced levels.

This overall objective can be divided into three subgoals specifically for the near term, the middle term, and the long term:

4. Near-Term Goal We should strive to alleviate the imbalance between total supply and total demand and achieve the basic balance, or basically coordinated development, of the industrial structure. **The Central Task:** On the basis of rectifying the overall imbalance, or specifically on the basis of closing the five basic gaps which are the cause of the imbalance between total supply and total demand, namely, the gap between the sum of consumption and investment and the sum of the income and surplus of workers engaged in productive

activities, the gap between import and export, the gap between revenues and expenditures, the gap between credit receipts and payments, and the gap between the inflow and outflow of funds, striking a balance in each and among all of the five, we should strive to rectify the structural unfairness of industrial incomes, the structurally irrational distribution of social resources, the serious gap between supply and demand, and the irrational product price structure. At the same time, we should maintain steady growth of agriculture, the energy and raw and semifinished materials industries, and the infrastructure. Readjustment should be focused on the pattern of social demands. Judging by China's supply and demand pattern, we are at present in a period of serious incompatibility between supply and demand, and supply falling short of demand is the prevailing situation. In this period, it is difficult to change the rigid structure of fixed capital in China. Consequently it is difficult to change the supply pattern. Therefore, readjusting the demand pattern has become the focus of the near term readjustment of the industrial structure.

B. Middle-Term Goal. On the basis of consolidating the readjustment of the industrial structure, that is, on the basis of achieving basic balance and coordination of the industrial structure and basic macroeconomic stability, we should go ahead to implement a policy of slanted industrial structure by readjusting our existing assets and increasing what is needed, widely adopt advanced technologies and management experience, carry out qualitative improvement of the industrial structure as a whole, strive to establish a market network for cooperation on the basis of specialization, and enable the tertiary industry (education, banking, insurance, consultation, and social services) to grow more rapidly. We should also begin to coordinate the regional industrial composition. **The Central Task:** We should support the key industries, develop a new type of industrial relations centering on specialization and cooperation, and promote the tertiary industry which serves production.

C. Long-Term Goal. On the basis of achieving the goals of near-term balance and mid-term consolidation and reform, we should continue to pursue the policy of slanted industrial structure, improve the production organizations and the market environment, promote strategic industries and new industries, and achieve a highly advanced industrial structure. **The Central Task:** We should develop strategic industries or new industries and promote the intensive- and fine-processing and technology- and knowledge-intensive industries in the industrial structure.

It must be pointed out that the goals for the three stages of the rectification and improvement of the industrial structure are goals of the same development process and cannot be separated or disconnected. The formulation of the near-term goal must be subordinated to the mid-term and long-term goals. We must not fall again into the vicious cycle of "treating symptoms but not the disease."

The arrangement of the mid-term and long-term goals must dovetail with and be contained in the near-term arrangement.

3. Near-Term Readjustment of China's Demand Structure

First, the inflation of total demand is the general economic trend in China. But, the inflation of total demand does not mean the inflation of demand for investment by all fields of production, nor does it mean the inflation of all types of consumption. Rather it has its structural characteristics. Therefore, in curbing total demand, we cannot cut all demands in the same way, but should deal with different demands in different ways.

Secondly, the readjustment of the industrial structure is necessitated mainly by the structure of fixed capital, which depends on the investment structure and the production capacity formed. Investments follow a natural cycle. The implementation of investment policies is also restricted by the limited availability of money and materials. Therefore, it is difficult for near-term industrial investment policies to produce quick results in balancing the industrial structure and maintaining macroeconomic stability.

Thirdly, within the industrial structure, each industry develops in different ways as demanded by society. Industries can be divided into three categories. The first is industries that do not have enough goods in stock or in circulation. The second is industries with goods piling up in storage and slow-selling in the market. The third is industries with some goods lying idle in storage but other goods in short supply. We should deal with these three categories of industries in different ways according to the pattern of social demands. For the first category, we should reduce the demand by controlling the social demand structure. For the second category, we should expand the demand. The third category of industries is the most common in our economy. We should selectively (in coordination with the mid- and long-term industrial plans) and appropriately increase the intermediate input for the products in short supply, and reduce the final demand for these products (structural control). At the same time, we should appropriately reduce the intermediate input for the products in excess supply, and increase the final demand for these products.

Finally, the purpose in readjusting the demand structure is to control the patterns of different social demands, while developing a highly advanced industrial structure and intensifying the reform of the economic system. It needs to be done in a scientific way. (1) A distinction should be made between the demand pattern for intermediate products and that for final products. The former is mainly determined by the present supply level and production scale of the intermediate products, and is difficult to change in the near term. The latter is mainly determined by the state's revenue policy and the demand preferences of various economic bodies, and can be changed quickly. Therefore, the two should be readjusted in different ways. (2) The focus in readjusting the

demand structure must be made clear, which is to increase the proportion of investment for production and technological transformation, control the inflation of consumption demands, and turn consumption demands into investment demands. (3) We should establish a competitive income distribution mechanism and resources distribution system as soon as possible to avoid using over-restrictive administrative measures that will sap the vigor of the economic bodies. (4) The state should adopt diverse macroeconomic measures to readjust the demand structure, making use of currency, financial, tax, and income policies and gradually working by legal means.

4. Mid- and Long-Term Planning on China's Industrial Structure

The purpose of rectifying and improving the industrial structure is to accelerate its development. Therefore, we regard the making of a mid- and long-term plan for the development of the industrial structure as a basic objective of its rectification and improvement. Whether the industrial structure can develop successfully depends on whether we can formulate a comprehensive and long-range development plan, which no doubt is a systems engineering project requiring the concerted efforts and untiring exploration by the whole country. The following are questions about this project which should be taken into consideration:

First, the question of bringing into line the deviations in the industrial structure. Structural deviations are an unavoidable phenomenon in economic operations, and the deviations in China's industrial structure caused by longstanding structural distortions are extremely serious. Bringing the deviations in the industrial structure into line is a basic economic task and also the first step to achieve a coordinated and highly developed industrial structure.

Second, the question of stabilizing agriculture, remedying the "bottlenecks," and strengthening the infrastructure (including education). The steady development and strengthening of these industries and departments will not produce much near-term benefits, but will produce very great long-term benefits.

Third, the question of choosing the leading industries and key industries and strengthening the ability of industries to spur the growth of other industries. We should choose the leading industries for China's economy in the light of the present situation, clearly designate and develop the key industries on the basis of the national conditions, and strengthen the ability of industries to spur the growth of other industries through comprehensive and balanced macroeconomic planning.

Fourth, the question of strengthening the flexibility of industries. Industrial flexibility depends on each industry's level of technological progress, quality of management and administration, and so forth. The central task in strengthening the flexibility of industries and speeding

up their upgrading and updating is to speed up the technological transformation mainly of the large- and medium-sized enterprises.

Fifth, the question of a suitable scale for industries. The benefit of large-scale production by industrial units is an important indication of the growth of the industrial structure. A suitable scale is a powerful lever for developing a highly advanced industrial structure. In China, a crucial question is how to apply various kinds of economic levers with the support of certain legal means to accelerate the merging or concentration of enterprises, develop enterprise groups, firmly curb duplicate construction, and strengthen the effect of "economies of scale." There is considerable potential capacity and advantage in macroeconomic organization in China for development in this direction.

Sixth, the question of optimum spacing of industries. A factor which cannot be ignored in a highly developed industrial structure is the spatial distribution of industries. A rational distribution of the productive forces can produce tremendous spatial benefits. In China, the central theme in industrial distribution is to break the pattern of duplicate industrial structures in different regions and, on this basis, to set up economic zones and economic centers, each with its own special characteristics and built according to specific geographic, economic, political, and other factors, and create a rational mechanism for the interflow of capital, technology, and qualified people between regions.

Increased Assertion of State Control Over Economy Urged

900H0382 Beijing GONGREN RIBAO [WORKER'S DAILY] in Chinese 26 Jan 90 p 4

[Article by Pan Xining (3382 3556 1337): "Macro-economic Countermeasures For Demolishing the Limitations of Mesoeconomic Regulation and Control"]

[Text] In 1985, the State Council produced a financial control regulation for "distinctions among different taxes, checking and ratifying receipts and expenditures, and contracting work responsibilities." Local governments benefitted greatly from this regulation, and local interests were further clarified and became more fully independent. Moreover, to a very large extent, the amount of financial income generated for the central government became a mark of local government political achievements, adding a political complexion to economic activity. The accretion of economic and political benefits gave powerful inherent impetus to local governments' strengthened mesoeconomic regulation and control.

It was during this year that the entire country, from top to bottom, conducted economic system reform in which the streamlining of government and the delegation of authority was an ingredient, a substantial amount of investment project examination and approval authority, price control authority, and import and export trade

approval authority being delegated to local governments. This brought about a multiplicity of investment and policy making entities, opening the way to disorderliness in macroeconomic regulation and control possible.

Disorderliness in mesoeconomic regulation and control was manifested primarily in three regards as follows. First was the establishment of administrative bastions to close off areas to trade. Economic methods were employed to limit the inflow of industrial goods from outside, and to force the sale of local industrial productions within the region. Restrictions were placed on the outflow of locally produced agricultural by-products and processed industrial raw materials in order to provide sufficient amounts for local needs. Second was an inflation of local investment, with consequent duplication of construction, redundant imports, and mindless competition. Regions frequently vied with each other to invest in the building of plants for the production of high priced, big profit processing industries, thereby occasioning the duplicative construction of many industries producing low returns. Third was the reckless use of price competition methods. First came large increases in prices of products in which the local region enjoyed dominance (premium quality, name-brand products, products that accounted for a substantial percentage of the gross output value of industry and agriculture, and products that held a certain share of markets outside the region). Second came the buying up in producing areas, at any price, of processing industry raw materials on which a profit could be made.

The disorderliness in mesoeconomic regulation and control weakened the role of national macroeconomic regulation and control, giving rise to a chaotic economic environment, and leading to disorderliness in the operation of the economy. During the current period of improving the economic environment and restructuring the economic order, it is particularly necessary to demolish the impediments that disorderliness in mesoeconomic regulation and control occasion to help the state buttress macroeconomic regulation and control. The following actions may be taken to do this.

First is establishment of the prestige of the central government, and strengthening disciplinary control over local governments for strict enforcement of orders and prohibitions. For a very long time, the attitude of some places has been that "there are policies at the top, but there are ways to get around them at the bottom," and when you "hit a red light, go around it." As a result, the Central Committee's "Document No. 1" is distorted beyond all regulation by local government "Document No. 2." Such a state of affairs cannot continue. The authority of the central government must now be asserted to insure the uniform application of government decrees, political discipline being rigorously enforced to change all manner of high sounding excuses, or against those who refuse to carry out central government decrees, punishment being meted out as the seriousness of the circumstances warrants, even going so far as to

remove people from their job. Unless this is done, it will be difficult to obtain strict enforcement of orders and prohibitions.

Second is appropriate concentration of the "three authorities" for greater direct control. The transitional delegation of authority was tantamount to abnegation of macroeconomic control. Central government authority over personnel, activities, and finances should be suitably centralized, otherwise there may be a loss of authority and a loss of prestige that develops into a loss of control. Authority over personnel. Macroeconomic policy making, execution, and supervisory systems such as planning, banking, pricing, auditing, industrial and commercial tax, statistics, and supervisory organs should be under the direct vertical control of the central government, and such organs in all jurisdictions should serve as extensions of the central government's functions. Branches and sub-branches of the foregoing organs in all jurisdictions need not be set up along administrative region lines, but rather along economic region lines. Authority over activities. Authority for the examination and approval of large investment projects, authority for setting prices of major commodities, and policy making authority over the import and export trade should be exercised directly by the national department concerned, or the State Council. Authority over finances. The central government must concentrate sufficient financial and material resources. Without certain financial and material resources as a backup, direct control becomes an empty phrase.

Third is the establishment and perfection of a system of laws and regulations for regulating the economic activity of local governments. Development of a modern economy requires not only modern science and technology, but also a modern legal regulation and control system to provide rules and regulations to be followed in economic activity that impel the economic activity of local governments to develop in a regularized and scientific direction, thereby making them less blind and arbitrary. The laws and regulations urgently needed in the country today are as follows: investment laws, budgetary laws, laws for the implementation of industrial policies, a banking code, a competition code, and supervisory regulations, administrative punishment regulations, and administrative law enforcement and control regulations.

Fourth is the formulation of scientific methods for evaluating the achievements of local leading cadres in order to guard against reverse regulation. We have had a biased understanding of the standards for productivity for a fairly long time, simplifying the standards for productivity in terms of economic development, and regarding economic development only in terms of increase in output value and government financial income. This resulted in very many grain growing areas, forest areas, and fishing areas making major efforts in industrial development that required that they make the most of disadvantages while suppressing advantages.

Such a standard for evaluating achievements led ultimately to the opposite of the goal intended in evaluating achievements, engendering an inflation of investment in processing industries, and a loss of state macroeconomic control. This was a classic manifestation of reverse regulation. Thus, in evaluating achievements, one cannot look only at economic benefits, one must also look at social benefits and ecological benefits as well. One cannot fail to distinguish objective conditions, giving like standards for all, but rather should stress individual differences. For example, one cannot just look at the output value and the financial receipts from a main agricultural area, one must also look at the amount of agricultural products produced.

Fifth, powerful administrative methods can still not be abandoned. Formerly, there was a trend of thought that held that administrative methods were backward, as though continued use of administrative methods to control the economy was a historical throwback and a regression to the old system. The effect of this kind of thinking on our not rightly developed markets was the ill-advised introduction of economic and market regulation methods that were divorced from the reality of the country's economic deficiencies. The result was chaos in the economic order. A review of the past and a facing of realities shows the need to increase application of administrative methods. Take cutbacks in investment in fixed assets, for example, which are difficult to attain through economic methods. Non-productive investment does not take into consideration benefits from investment, and although productive investment reacts on economic methods (interest rates), powerful market demand when conditions are lacking may also lead to a weakening or even complete loss of effectiveness of the regulatory role of interest rates. Thus, administrative methods have to be employed.

Sixth, recognition of local interests requires that when places depend on low priced raw materials from elsewhere to make money, the principal macroeconomic entity should return to the raw materials producing area a suitable amount of the profits paid by the processing area.

Disorderly mesoeconomic regulation and control is a problem that cannot be ignored without arousing widespread concern.

"Second Step" of Development in 1990's Viewed

HK 260/202/1990 Beijing GUANGMING RIBAO in Chinese 5 Feb 90 p. 1

[Article by Liu Guoguang, vice president of the Chinese Academy of Socialist Sciences: "The Second Step of the Strategic Goal Can be Achieved"]

[Text] We are now on the threshold of the 1990's. The goal for China's economic development in the 1990's is to take the second step of the "three-step development strategy" so that, by the year 2000, people will have attained a moderate level of prosperity. Now we are in

the second year of the economic readjustment period, and we will still have to lead two or three years of a thrifty life. As we look toward the 1990's can we be certain of achieving this goal?

The first two steps of the "three-step strategy" are to be taken from 1980 to 2000. During these 20 years we need to quadruple the total output value of industry and agriculture. In other words, we will have to obtain an average annual increase of 7.2 percent. During the last 10 years we accomplished the first step ahead of schedule, with an increase of 10 percent or more. Now it will be enough if we will have an annual increase of five or six percent in the next 10 years, with industry accounting for a greater proportion, ranging from six to eight percent. Last year, industry was in the slowing-down phase of the readjustment period. Nevertheless, the industrial growth rate was still able to reach 6.8 percent. After passing through the "low valley," it should rise slightly. If we can maintain this growth rate, there will be no problem in achieving the second-step goal in the 1990's.

In view of this, from now on we should pay the most attention to such problems as how to rationalize the economic structure and increase economic returns rather than growth rates. These are more difficult problems. The premise of resolving these problems is to bring about continued, steady, and coordinated development of the national economy, or in other words, to check economic jumps and slumps.

The decision made at the Fifth Plenary Session of the 13th Central Committee summed up the experience of the jumps and slumps over the past 40 years. It put forward the guiding thought of making rectifications in economic development, that is, resolutely checking the tendencies of seeking quick achievements and of running after growth rates without considering the whole situation, and sticking to the thought of bringing about continued, steady, and coordinated economic development. In conducting the current improvement and rectification program, we should not allow economic jumps and slumps to recur. Whenever the economic situation improves, we become infatuated and confused and then go back to jumps and slumps. We must find a way to achieve continued, steady, and coordinated development of the economy through the improvement and rectification program.

To this end, we must change our guiding thought and economic mechanism. In other words, we must remove factors contributing to excessive economic growth, such as "eating from the same big pot," soft budgeting, the investment craze, and quantity competitions. We should institute a new mechanism that makes micro-economic units control themselves. At the same time, we should establish and improve a new macroeconomic regulatory and controlling mechanism that is in keeping with the principle of the integration of planned economy and market regulation. If we do not succeed in changing the

mechanism, it is probable that the economy will bounce back when we relax administrative control.

The change of mechanism must be made through deepening reform. It does not produce its effects in as short a time as the improvement and rectification program does, which only takes three years or so. It will more time and much more effort. We must not only put deepening reform on our agenda during the improvement and rectification period and increase the proportion of reform as the macroeconomic environment improves, but we should also continue deepening reform when the basic tasks of the improvement and rectification program are completed. This is what we will be vigorously engaged in in the 1990's.

Contract Management System, Macroeconomic Adjustment Reviewed

9001104454 Beijing JINGJI RIHUA in Chinese
13 Feb 90 p 3

[Article by Xin Xile 6580 1585 2867: "The Contract Management System and Macroeconomic Regulation and Control"]

[Text] 1. Putting the Contract Management System in a Correct Relationship to Macroeconomic Regulation and Control

As the division of labor between various kinds of enterprises becomes increasingly elaborate along with the general socialization of production, macroeconomic operations are effective only when all industries exist and grow in line with the general objectives of socioeconomic operations. This cannot be accomplished by relying on the efforts of enterprises alone, because they are subject to limitations, such as the position that they occupy and their own interests, which makes them base their economic actions more on their own partial and local interests. Although these spontaneous economic actions may sometimes be advantageous to the existence and growth of enterprises, they are inconsistent with or even run contrary to general macroeconomic objectives. On the other hand, the general objectives of economic operations require the state to prop up the growth of some enterprises, while restricting that of others. This means that the state must use macroeconomic regulation and control forces to exercise the necessary regulation and control over economic operations and enterprises' economic operating rules and economic actions. It should be noted that macroeconomic regulation and control and microeconomic invigoration are not opposites, but rather supplement each other. Normal economic operations require a certain amount of conditions and boundaries, such as a basic balance between public supply and demand, a basically rational industrial structure, and a basic balance between public revenue and credit. If microeconomic operations result in these conditions being violated and their boundaries being overstepped, macroeconomic disorder will occur, which in turn is bound to have a negative impact on microeconomic operations. Thus, enterprise operations according

to microeconomic rules, such as the contract management system, must be coordinated with the relevant macroeconomic regulation and control forces. Only in this way can better consideration be given to economic objectives, such as efficiency, scope, stability, and fairness, in order to maximize the effectiveness of macroeconomic operations.

II. Facing Up to the Conflicts Between the Contract Management System and Macroeconomic Regulation and Control

Although it is objectively undeniable that the contract management system and the relevant macroeconomic regulation and control forces must be coordinated to maximize the effectiveness of macroeconomic operations, conflicts have certainly appeared between them in the last 2 years because the contract management system has weakened macroeconomic regulation and control. This was caused by both subjective and objective factors, and is related both to the imperfections in the contract management system itself and the ineffectiveness of macroeconomic regulation and control measures.

1. **Subjective Factors:** Many enterprises think that since they are contracted to the state, the state should control them only by taking taxes, profits, and products, while all other decisionmaking power should be theirs. Meanwhile, the higher authorities who are directly concerned with or in charge of enterprise business have absolutely no understanding of issues, such as whether macroeconomic regulation and control should be exercised over enterprises, or whether it violates their decisionmaking rights, after they are contracted.

2. **Objective Factors:** On one hand, since macroeconomic regulation and control is exercised primarily over profits, even though enterprises that will sustain losses from the impact of certain macroeconomic regulation and control measures may objectively understand the necessity of them, they are still likely to use the fact that they have fulfilled their contracts to oppose or resist their application. On the other hand, the relations between China's macroeconomic and microeconomic operations have repeatedly gone through a cycle of "control-suffocation-decontrol-invigoration-chaos-control (recontrol)" for many years. While too few incentives and too low efficiency in microeconomic operations have always been issues that were difficult to handle, the contract management system took an important step and achieved major successes in resolving them. As the government highly valued these successes and realized the side effects of its past macroeconomic regulation and control measures, it preferred the option of exercising as little macroeconomic regulation and control as possible.

3. **The Imperfections in the Contract System Itself:** The parties that grant most enterprise contract management contracts are local governments or their concerned departments at all levels. When local governments alone grant contracts, although the enterprise development

objectives that they take into consideration are consistent with local aims, they are often inconsistent with, and sometimes even run counter to, general national aims. But when the granting parties are made up of local governments' concerned departments, which may vary in number from one to ten or even dozens, the granting party sometimes represents only the interests of certain or several sides of the government, while ignoring those of others. These kind of enterprise objectives can neither take into account national macroeconomic objectives, nor be certain to be in line with the general aims of local governments. This means, on the one hand, the state is unable to reflect its general economic aims in contract management contracts and, on the other hand, that it cannot use macroeconomic regulation and control measures to regulate and control contracts.

4 The Ineffectiveness of Macroeconomic Regulation and Control Forces. Although it is undeniable that the contract management system adheres to the principle of separating ownership from management and thus devolves management rights to enterprises, it is still unclear who actually holds ownership rights. Governments at all levels in China now hold the ownership rights to various enterprises. Devolving authority to lower administrative levels in recent years has resulted in governments at the provincial level and below owning far more enterprises, or holding far more ownership rights, than does the State Council. This means that the management and development objectives of most enterprises throughout China are naturally formulated (and reflected in contract management contracts) by governments at the provincial level or below. It is extremely likely that these kind of enterprise objectives will be uncoordinated or inconsistent with the the general aims of the central government.

Moreover, the relationship between ownership rights and regulation and control rights is even more confusing because they have always been combined into one and the owner has always been the regulator and controller both before and since the contract management system went into effect. This has left the central government, which has very little ownership rights, incapable of dealing with the phenomenon of local economic operations being out of line with its general aims.

III. It Is Necessary To Try To Coordinate the Contract Management System with Macroeconomic Regulation and Control

In fact, there is a very big difference between the objectives that the owners and the regulators and controllers pay attention to. The owners are concerned with enterprise profit "dividends" (social product distribution), while the regulators and controllers are concerned with maximizing the effectiveness of macroeconomic operations. In China specifically, public property is owned by the state (representing the whole people) and the social control function is also exercised by the state, which makes the state both the owner and the regulator

and controller. Enterprise contract management contracts should be regarded as being concluded with the state as owner, rather than as regulator and controller. In other words, regulation and control rights cannot be devolved to enterprises through contracts. Which level of government exercises which regulation and control rights, should be clearly and rationally differentiated according to the principle that most macroeconomic regulation and control measures of primary importance should be taken by the central government, while control of less than secondary importance is exercised by local governments. Summing it up from a macroeconomic viewpoint, management authority can be devolved to enterprises through contracts, ownership can be partially devolved to localities, but most regulation and control must be exercised by the central government. It is necessary to do away with the idea that the contract management system and macroeconomic regulation and control are opposites, so that macroeconomic operations can take into account both the economic objectives of efficiency and scope and also those of stability and fairness.

Economics May 'Threaten' Coastal Stability

HK (90/3/1) '90 Hong Kong HONGKONG STANDARD in English 19 Feb 90 p 6

[By Lo Do]

[Text] Provincial authorities of China's coastal regions have warned Beijing that the present economic policy of cutting down the country's vast number of township enterprises would hit the political stability of rural areas.

In an unprecedented move, the authorities from seven coastal provinces recently sponsored a joint meeting to discuss ways to alleviate the economic pressure the official newspaper CHINA'S TOWNSHIP ENTERPRISES reported.

They stressed that the wellbeing of more than 12 million township enterprises was not only an economic issue, but also a matter of political stability.

The rural governments feel especially threatened as most of these enterprises are in their areas and employ a vast number of rural workers, the paper said.

Chinese analysts said such a move probably signifies discontent with Beijing's austerity programme, which attempts to curtail the township enterprises.

The analysts said if the provinces had taken the initiative to hold the meeting the protests would stun Beijing.

The meeting was held in Hangzhou in eastern China early this year, with participants representing the authorities of the seven coastal provinces—Guangdong, Fujian, Jiangsu, Shandong, Hebei, Liaoning and Zhejiang.

These provinces possess the largest number of township enterprises in the country. According to the representatives, in recent years, the gross production value of these

seven have been almost 60 percent of the national total township enterprises production. [as published]

This meant the seven provinces have been specially hard hit by Beijing's austerity programme, which aims at pressing down the total scale of processing industries.

Last year the township enterprises' industrial growth rates dropped by more than 20 percent points, as factories and workers were laid off all over the country.

For Guangdong province, the total number of factories closed was 5,600, with 250,000 workers laid off. In Zhejiang, the numbers of closures and unemployed were respectively 2,500 [as published] and 170,000. In Liaoning, more than 100,000 workers had to be laid off.

Until recently, the number of township enterprises that still had normal operations was only 34 percent of the total in Guangdong, 30 percent in Jiangsu, 40 percent in Fujian and 20 percent in Zhejiang.

It was these figures that prompted the participants in the meeting to urge Beijing to maintain the sustained and stable development of the township enterprises.

They repeatedly stressed that, viewing the present situation in the rural areas, such development is directly related to the livelihood of millions of rural workers. If it failed to materialise they warned that political unrest could follow.

"It is also vital to the stability of the rural governments," they said.

But the joint meeting did not work out any concrete plans to improve the situation.

It repeated the central government's abstract industrial policy of asking the township enterprises to shift their output orientation from the domestic market to foreign markets, and to complement the state-owned industries as well as the agricultural sector.

Chinese analysts said the primary intention of this meeting was to express the grievances of the coastal provinces and to exert pressure on Beijing, rather than to work out ways of easing the present economic crunch.

"By stressing the political significance of maintaining the well-being of the township enterprises, it might be effective in pressing Beijing to give in," they said.

Communique Notes Major Economic Problems

OH 210/201190 Beijing XINHUA in English
0815 GMT 20 Feb 90

[Text] Beijing, February 20 (XINHUA)—China's gross national product in 1989 totalled 1,567.7 billion yuan, an increase of 3.9 percent on the 1988 figure, and national income amounted to 1,300 billion yuan, a 3.7 increase.

This was disclosed here today by the State Statistics Bureau in a communique on national economic and social development in 1989.

The communique says the Chinese people have made remarkable achievements in economic consolidation and in-depth reforms.

In 1989, social demands were effectively curbed, social effective supply continued to increase, the gap between supply and demand was narrowed, the increase in prices of goods slowed, major economic relations were improved, foreign exchange reserves increased, and the national economy as a whole developed better.

The communique points out that major problems in the economy in 1989 were the imbalance between supply and demand had not been completely corrected, an irrational economic structure and had economic efficiency, and problems emerging from the cut in the macro-economy, such as impeded distribution, businesses operating under their capacity, and employment pressure.

Cost of Living Increases 16.3 Percent

OH 210/201190 Beijing XINHUA in English
0756 GMT 20 Feb 90

[Text] Beijing, February 20 (XINHUA)—The communique made public by the State Statistics Bureau here today revealed that domestic markets experienced a changeover from excessive growth in 1988 to partial sluggishness in 1989.

Meanwhile, the margin of market price increases narrowed slightly compared with that of the previous year. The general retail price level in 1989 increased by 17.8 percent over 1988, of which 6.4 percentage points were first-time price hikes, much lower than the 1988 figure of 15.9 percentage points.

The value of retail sales of social commodities totalled 810.1 billion yuan in 1989, an 8.9 percent increase over the previous year, but by taking inflation into account it was actually a reduction of 7.6 percent over 1988.

Of the total, the volume of retail sales of means of agricultural production was 101.7 billion yuan, a rise of 12.3 percent; that of consumer goods was 708.4 billion yuan, up 8.4 percent. The value of consumer goods sold to institutions was 69.3 billion yuan, 4.2 percent more than in 1988.

A breakdown of the retail sales of various kinds of consumer goods shows that food rose 10 percent over 1988, clothing went up 4.2 percent and articles of daily use increased 7.9 percent.

Commercial departments saw a marked reduction in profits last year after 1988's drastic increase. In 1989 profits of the commercial departments and the supply and marketing co-operatives totalled 7.74 billion yuan, down 37.9 percent from the previous year. The number

of enterprises running at a loss increased, the costs of handling commodities in circulation were higher and the period of capital turnover was prolonged.

Compared with the corresponding periods in 1988, the margin of price increases narrowed month by month, to 6.4 percent in December of 1989.

In 1989 the cost of living for urban workers increased by 16.3 percent over the previous year. The increase rate was less than the 20.7 percent recorded in 1988.

The demand for the means of production was reduced. In 1989 the means of production sold by supply departments across China were valued at 234.2 billion yuan, down 0.8 percent from the previous year. When price increases are taken into account, the actual decrease was 18.2 percent.

Progress was made in straightening out the market order. Tangible measures were adopted throughout China to ban the sales of counterfeit, shoddy and fake goods, and crack down on speculation and profiteering. Meanwhile, the sales of color television sets, chemical fertilizers, pesticides and plastic sheeting for agricultural use were placed under the exclusive control of departments designated by the state. Large-scale inspections on the quality of commodities were conducted. All this helped restore the market to good order.

However, the margin of increase in the price of means of agricultural production was still considered too big and there were arbitrary price hikes in the service sector.

Lateral Economic Cooperation Yields Marked Results

OW 2602004590 Beijing XINHUA Domestic Service in Chinese 1122 GMT 21 Feb 90

[By reporter Yang Qing (2799 7230)]

[Text] Beijing, 21 Feb (XINHUA)—Lateral economic association and cooperation in our country has shown great vitality and exhibited a tendency to develop vigorously under the current new circumstances of economic improvement and rectification.

This reporter has obtained the following information from a forum which opened in Beijing today to analyze the present state and the trend of development of lateral economic association: According to incomplete statistics, nearly 100,000 agreements on economic and technological cooperation were signed by various localities in 1989. Half these were economic association projects. This means a substantial rise in the number of such projects compared with any of the previous years. Projects for exchange of personnel and cooperation in the financial field and in the supply of materials continued to develop in depth, and there was an upward trend of cooperation in developing energy resources, raw and other materials, and farm and sideline products. The total investment in cooperative development projects nationwide exceeded 5 billion yuan. Lateral economic

cooperation projects added nearly 50 billion yuan to last year's gross value of production, while profits and tax revenue from these projects amounted to 8.3 billion yuan.

According to the nearly 100 experts and scholars attending the above-mentioned forum, lateral economic association, which was in its infancy in the last 10 years of reform and opening to the outside world, agrees with the trend of development of the planned commodity economy, and is a major part of the economic restructuring in our country. Despite its short history, the role it has played and the results achieved are conspicuous. Lateral economic association in our country has developed by and large in accordance with geographic environment and on the basis of the economic connection naturally formed in the past. For this reason, regional lateral ties based on central cities account for a very big proportion of such association. These ties have carried forward the leading and multifunctional role of cities and stimulated the development of the economy, science, and technology in the region. They have not only changed the old economic structure of our country, broken down the barriers between departments and regions, put an end to regional and departmental compartmentalization and solved the problem of production being out of step with resources, but have also played a leading role in solving the difficulties encountered by big and medium enterprises in production and operations, and alleviating their shortages of energy, funds, and raw material. The development of lateral association between enterprises has involved mainly big and medium enterprises, and association between different trades has been the target for breakthroughs. This kind of association appeared earlier than others, and the number of projects for such association is also comparatively large. It has promoted the rational use of elements of production and the optimization of industrial structure, and is an effective way of raising the economic efficiency of enterprises. In particular, cooperation between different localities in the supply of materials has opened a major channel for solving the strains on materials and funds, and for facilitating the flow of materials.

Regarding the trend of development of lateral economic association in our country, participants in the forum said: Enterprise association in various localities and regional cooperation are developing in depth. Measures taken by the state to improve the economic environment and reorganize economic order will help switch the emphasis of such association from extensive to intensive development to increase its benefits. "Software" association projects, aimed at advance in science and technology, improvement of enterprises management, training of personnel, exchange of information, and joint purchase and sales, will become principal forms of association in the future, and should be energetically developed. The experts and scholars called on the business circles and entrepreneurs to grasp the current opportunities to strenuously promote lateral association and cooperation with a view to promoting the reasonable

use of elements of production on a broader scale, making progress in science and technology, and helping rationalize the industrial structure and the layout of production units. This, they said, is a realistic and effective way to extricate our country's economy from its predicament.

Government Strives for Better Economic Performance

OH 280,202,290 Beijing XINHUA in English
1109 GMT 27 Feb 90

[Text] Beijing, February 27 (XINHUA)—The Chinese Government will take effective measures to improve its economic performance and try to tide itself over its current economic difficulties, said Liu Zhongli, vice-minister of finance, today.

At a national conference on industrial enterprises, which opened here, the vice-minister put forward seven specific measures.

He said local governments will help businesses to improve their management, adjust industrial and product structure, reorganize themselves, reduce losses and increase profits.

The measures will also include supervision of enterprises and further improvement of their business management mechanism.

Liu said that although the national economy is turning for the better and the austerity program has produced early results, China's economy still faces many problems, such as high consumption of materials, poor product quality, unprofitable enterprises and stockpiled products.

He said 16 out of 100 industrial enterprises were running at a loss in 1989 with a total loss of 13.6 billion yuan, 2.23 times the figure of the previous year.

An analysis of poor economic results, he said, discloses various contributory factors, including macro-policies. The scale of capital construction was so large that some projects were launched blindly and duplicated, leading to waste of production facilities and production capacity.

The vice-minister noted that another important factor contributing to poor economic results is weak management of businesses that seek only output value and speed regardless of large investment, low output, high consumption and poor economic results.

Therefore, he called on industrial enterprises to pay great attention to economic performance, to build up a stricter economic responsibility system and further improve business management mechanisms.

Economic Retrenchment Produces Positive Results

OH 280,202,290 Beijing CHINA DAILY in English
28 Feb 90 p 1

[B] staff reporter Zhang Ping

[Text] The economic retrenchment policy, adopted by the Central Government since last year, has produced positive results in cutting back on overall capital investments, while improving efficiency in key development projects, CHINA DAILY has learned.

The over-heated industrial growth, which has for some years led to the continuous increase in the country's total capital investments, has now eased.

However, according to a report from the State Statistic Bureau, last year a number of key projects were completed on schedule.

In 1989, 57 large and medium-sized projects and another 128 major projects were completed, the report said.

The report listed the 18 coal mines, 15 oilfields, 19 power stations and 30 berths as last year's achievements.

Most of the key projects were in energy, transportation and telecommunication areas, which the report said were badly needed by China's economy. The central government had afforded these key projects priority status for investment, loans and raw materials.

Statistics showed that more than 19.52 million tons of coal were dug from the 18 newly completed mines, the 15 oil projects produced an extra 17.05 million tons of oil, and more than 7.65 million kilowatts were added thanks to the 19 newly completed power stations.

Last year, the port handling capacity was increased by 44.91 million tons as 30 berths were put into use, including the third phase of the Qinhuangdao Coal Port which added more than 30 million tons. The report said this was now the world's largest coal handling port.

This year, the country would continue the construction of 580 large and medium-sized projects.

About 200 of these were connected with energy. They included 90 electric power projects, 65 coals projects and 22 oil projects. Others covered the fields of agriculture and communications.

The scale of China's overall construction projects this year would be kept within the scope of last year, according to a report in PEOPLE'S DAILY.

The newspaper said that no new construction projects would be started this year except for coal mines, electric power stations, communications facilities, chemical fertilizer plants, and projects connected with water conservation, forestry, agriculture and exports.

China adopted an austerity policy late in 1988 in a bid to ease the overheated economy and high inflation. PEOPLE'S DAILY said that reducing capital construction

had been regarded as a "vital step" in achieving the aims of the austerity programme.

In 1989, the country's State-owned enterprises spent 153.8 billion yuan on capital construction, 3.63 billion yuan or 2.3 percent less than the previous year.

Experts said that this was the first decrease in capital construction in the past eight years.

And the number of new projects launched in 1989, 24,000, was the lowest for the decade and 14,000 less than the previous year.

Experts at the State Statistic Bureau said that 1990 was a vital year for carrying out the economic retrenchment policy. They said the Central Government should continue to implement its rigid policy on new construction projects and cut back the overall investment scope and improve investment efficiency.

Economist Says Optimum Growth Best Choice for Economy

OW0303103090 Beijing XINHUA in English
12:36 GMT 2 Mar 90

[Text] Beijing, March 2 (XINHUA)—A senior Chinese economist said that a stable, harmonious and optimum growth is the best choice for China's economy.

In his article to be carried on the coming May issue of "NEW CHINA QUARTERLY", Dai Yuanchen, a research fellow at the Economics Institute under the Chinese Academy of Social Sciences, said that there have been two differing views on China's economic growth rate. One view holds that a fast growth rate is the top priority for the country.

The other view favours an optimum growth rate aimed at long-term development instead of short-term returns. People holding this view believe that an abrupt high growth rate within a short period of several years would cause fluctuation of the economy—from overheating to adjustment and then to overheating again.

The article said China's economy first became overheated in 1984. Although an adjustment was made in 1985, it became overheated again in the second half of 1986, for the adjustment made in 1985 was not enough.

The overheating has had two consequences. One is that the excessive growth of investment in fixed assets and the rapid expansion of the disposable income of individuals meant that total demand exceeded total supply. The excessive money supply caused prices to rise above 20 percent after August 1988, and serious inflation is threatening the stability of people's livelihood and the normal operation of social economic activities.

The other is that the processing industries grew at a super high speed, exceeding the supporting capability of the

basic industries, such as agriculture, energy and materials supply, and communication and transport, which has led to an imbalance in the national economy.

So, in the current adjustment of the economy, the article said the Chinese Government has decided to keep the annual growth rate at five to six percent so that the overheated economy may be cooled down and inflation gradually curbed.

"In my view, it will be inappropriate to bring the growth rate down to lower than five percent, for China's annual population growth will offset some one percent of the gnp growth, and too low a rate of growth will affect the development of the economy, the employment of the labour force and the improvement of the people's livelihood."

He holds that the economy should have a long-term sustained development, the production structure should be optimized and the sectors of the national economy should develop in a coordinated way.

PROVINCIAL

Proposed Remedies for Fund Shortages in Shanghai

9003103374 Shanghai SHANGHAI JINGJI
[SHANGHAI'S ECONOMY] in Chinese
No. 6, 30 Nov 89 pp 31-34

[Article by Lai Zuyin (0171 4371 5593), of the Shanghai Academy of Social Sciences: "Shanghai's Funds Shortages and Countermeasures"]

[Text] After the 3rd Plenary Session of the Party's 13th Central Committee formulated the program for rectification, streamlining, and deepening of reforms, a policy of clamping down on credit was implemented across the nation. In fiscal matters, expenditures were cut, banks curbed the money supply, and one enterprise after another in Shanghai ran into funding problems. How to alleviate conflicts caused by insufficient funds became the focus of many people's concern. This article intends to explore this issue.

1. General Description and Special Characteristics of the Current Shortage of Funds in Shanghai

Funds are a fundamental and indispensable factor for organizing production, and they are one of the principal levers for macroeconomic adjustments. Funds shortages are a common problem in all developing countries where production capacity is not high and the rate of accumulation is limited. The supply of funds in Shanghai is also relatively tight sometimes. Because Shanghai is the largest economic center in China, its industrial and agricultural output value have always been the highest in the nation, although it slipped to second place in 1986, and its share of the national total fell to 7.1 percent. Nevertheless, ten billion yuan must be pumped into the economy every year to meet the needs of production and

circulation. For this reason, financial departments are always beating the bushes for ways to satisfy the normal demands of enterprises. In terms of the increase in operating funds in the four years from 1985 to 1988, the balance of all loans made by banks to cover operating funds during that time increased by 22 percent per year, while the total output value of the national economy only increased by 11.2 percent. In terms of the flow of funds, calculated 4.3 times on the basis of 1987 circulatory fund, the ratio between total flow of current funds in that year and the gross national product was 3.1:1. Total input of funds had become too high, exceeding the rate of economic growth. However, beginning in the fourth quarter of 1988, banks clamped down on the money supply and curbed loans. Many enterprises throughout the market experienced a shortage of funds. In the first half of 1989, the gap between supply and demand for funds reached one billion yuan. In the latter half of this year, even if savings reach the maximum projection and loans are held to the minimum, with the planned allotment distributed by the headquarters of the People's Bank, there will be a shortage of three billion yuan throughout the market. This kind of fund shortage has the following characteristics which distinguish it from earlier years:

1. Simultaneous shortage and stagnation of funds. Many enterprises throughout the municipality are experiencing a shortage of funds. Some lack sufficient funds to buy raw materials, and have had to suspend production sporadically. Some have no money to meet the payroll and issue bonuses, and have begun to sell machinery or distribute their own products. Factory production and the lives of workers and staff have been affected. Also, a considerable amount of cash is being hoarded in the hands of the broad masses of the people, and in the hands of individual entrepreneurs. According to projections from studies done on representative samples, the residents of Shanghai and 160,000 licensed individual entrepreneurs hold 3.6 billion and 800 to 900 million yuan respectively, for a total of 4.4 billion yuan. These figures show an increase of 50.2 percent and 100 percent over the previous year. In addition, domestic trade inventories in the municipality have built up to 12 billion yuan (38 percent higher than the same period last year), tying up large amounts of funds. Also, industrial raw materials and finished goods inventories are piling up at a serious rate. Hundreds of thousands of tons of steel and copper ingots have accumulated, along with many color televisions, refrigerators, and bicycles.

2. Mutual arrears and credit blockage exist simultaneously. During the development of the commodity economy, a situation in which "John owes Joe" and "Joe owes John" has arisen. If this problem can be solved in a timely manner, it would help the development of the commodity economy, but the problem of mutual debt is growing worse. "Debt chains" are becoming more tangled, turning into "triangular" and "multiparty" debt relationships. According to bank system statistics, the nation's enterprises were 108.5 billion yuan in arrears by

the end of March. As for mutual debt among enterprises in Shanghai, local state-run industrial enterprises had 6.5 billion yuan in payable loans by the end of May, an increase of 14.5 percent over the beginning of the year. Commercial enterprises are owed 1.3 billion yuan, outstanding loans in foreign trade have risen 200 million yuan above the normal level, and a vicious cycle has formed throughout the municipality in which foreign trade enterprises owe state-run enterprises, state-run enterprises owe township enterprises, and enterprises from out-of-town and Shanghai owe each other. Normal channels of commercial credit have become blocked, and economic activity has been deeply affected.

3. Large- and medium-sized state-run enterprises as well as run-of-the-mill small enterprises have all felt the shortage of funds. Shanghai's more than 700 large- and medium-sized enterprises are the backbone of every industry, and have always been a key target for bank loans. When banks clamped down on the money supply, attempted to recall old loans, and reduced new loans, these large- and medium-sized enterprises bore the brunt. With the added impact of overdue accounts payable from other enterprises, their lives were made quite miserable. Some small enterprises which lacked substantial resources to start with had an even harder time making ends meet when they encountered a tightened money supply, and they complained to high heaven. In the event, the enterprises that were supposed to be protected were affected by the retrenchment right along with those to which pressure was supposed to be applied.

4. The state banks and the many nonbanking organs have all felt the shortage of funds. There are several dozen financial organs in Shanghai, including the People's Bank of China, specialized banks, comprehensive banks, and nonbank financial organs. Taken as a whole, their funds are not few, but under the impact of this year's clampdown, they have all felt a shortage of funds. Among them, specialized banks have experienced greater problems than nonbank financial organs. Among specialized banks, those with relatively large organizations and numerous loan recipients have had greater shortages than other specialized banks. These phenomena have never occurred before.

II. Underlying Causes of the Shortage of Funds

As for the cause of this year's across-the-board funds shortage in Shanghai, there are differing views. Some people feel that consumption funds have grown too rapidly, and that the money is all in the hands of the masses. Some people say that rising prices for raw materials cost Shanghai 2.95 billion yuan in 1987, caused a one billion yuan drop in fiscal revenues, and that the money has all flowed to other areas. There are also people who say that the money belts of individual entrepreneurs are stuffed with cash, that they only hand over goods which have been paid for, and that they have all the money. All of these statements are true, but they are only superficial causes of the problem. I believe the

underlying cause resides in: some macroeconomic policies, and in the conflict between two types of planning systems, some areas of ideological and theoretical confusion, and the low level of management expertise in some units that use money, which has lowered the benefits that accrue to the state through the use of funds.

1. The shortage of funds is the inevitable result of the implementation, in the macroeconomic sphere, of retrenchment policies. The entire country began to curb the money supply in the fourth quarter of 1988. This has inevitably led to shortages of funds in various areas, and caused circulation blockages and difficulties in production. In order to implement the "double tight" policy, the State Council issued six kinds of bonds throughout the country, including state treasury bonds, special state bonds, value-protected bonds, bonds issued by financial organs, capital construction bonds, and bonds for key construction projects. The bonds were worth a total of 38.5 billion yuan, of which Shanghai bought 1.849 billion. This sum was used to readjust the flow of social funds under the condition that it would not increase overall social demand. It turned a part of consumption funds into production and construction funds. From an overall perspective, this was necessary, but for Shanghai, where funds were tight to begin with, it made things even tighter.

2. The shortage of funds reflects a conflict between the mandatory plan which governs production and marketing in some industries, and credit and funds management, which is subject to a plan that only serves as a guide. Production, supply, and marketing in Shanghai's metallurgy and electrical machinery industries have always been subject to a mandatory plan handed down by state organs, and the various enterprises had to follow the plan in distributing their products to the relevant user departments. However, the funds for the loans appropriated by the user departments to pay for the goods are supplied by local banks in accordance with their availability. As soon as the banks cannot satisfy the requirements of the units that receive the goods, and if these units also lack the necessary funds, they are forced to go into arrears on their loans. The result is that the continuity of production at the unit that delivers the goods is affected. Some large enterprises in Shanghai have encountered funding problems because of too many overdue debts. The conflict between the mandatory plan for production and the guidance plan for the supply of funds is a major cause of this situation.

3. The shortage of funds is the consequence of credit weakening, which only causes further weakening of credit, and the scattering of credit resources. As the commodity economy developed, commercial credit appeared, which was normal. However, because political and ideological work was neglected, an attitude sprouted up in which people "always looked money-ward," and they overlooked the principle that "creditworthiness is the lifeline of an enterprise." Therefore, under inflationary conditions, they began to fall behind in payments on goods, loans, and even taxes, which led to the

formation of the very serious "debt chain" that exists today. When other people's funds were tied up for an unreasonably long period of time, it directly affected the normal production activities of the great majority of enterprises, and the reputation of socialist commercial credit was damaged. This weakening of credit begets the further weakening of credit. It prevented enterprises that value their creditworthiness from being trusted by anyone. It forced widespread resort to barter, which is not at all in step with a modern economy.

There is another problem that exists alongside the weakening of credit. Some of the funds in specialized banks have been shifted to nonbank financial organs, scattering the credit resources of banks. In recent years, several dozen nonbank financial organs have appeared in Shanghai. They are not completely subject to the strictures of the People's Bank's credit plan. Their management is relatively flexible, and their business is growing relatively quickly, which has caused an outflow of some of the funds in specialized banks. However, the demand upon specialized banks for funds for the various industries has not decreased, and some of these are loans mandated by policy, which has weakened the ability of the People's Bank to exercise macroeconomic control. Currently, the disposable funds of the People's Bank have entered a "trough," while some nonbank financial organs are still expanding their fixed asset loans. Furthermore, some of these organs grant loans outside the plan, and some funds flow out of town (three billion yuan, according to statistics), which has exacerbated the shortage of funds in Shanghai.

4. The shortage of funds is due to deformation of the industrial structure. Since 1984 the "overheating," which has afflicted China's economy, has been brought on by industry—particularly the abnormally rapid growth of processing, manufacturing, and township enterprises. Not enough has been invested in such primary industries as agriculture, energy resources, and raw materials, or in highly efficient enterprises. The result has not only been the slow development of primary industries, a serious bottleneck effect, suppression of healthy circulation within the national economy, and high inputs yielding low output, many small enterprises compete with state-owned medium- and large-sized enterprises within the national economy for funds, raw materials, and energy resources. Some funds, loaned to industries which engage in normal production, and are supposed to be "protected"; instead, they end up flowing, due to economic linkages, into industries that are supposed to be "pressured" or are inefficient. This prevents the value-added feedback of funds. Even feedback itself has become problematic, which has resulted in a shortage of funds for large- and medium-sized enterprises.

III. Searching Among Reforms for Feasible New Measures

The leading comrades in the State Council recently stated that the readjustment of the national economy

which began in 1989 will be carried out for three years. It is therefore foreseeable that the state will continue to carry out the policy of retrenchment for the next two years, and the supply of funds will continue to be rather tight. For this reason, in order to resolve the imbalance between supply and demand for funds, in addition to such routine measures as continuing to develop savings, strengthening management of cash and social credit, aggressively clearing up overdue debts, restricting fixed asset investments, and controlling the expansion of consumption funds, banks must also adopt a guiding philosophy in which everything is predicated upon reform. They must focus upon internal enterprise affairs, cut out the fat where necessary, and strengthen management of funds. Building upon the foundation of these accomplishments, they must adopt the following countermeasures:

1. We must aggressively reform the system for settling accounts, push enterprises to expand use of credit. We must create the conditions which will enable us to lighten the pressure on bank credit and gradually get rid of overdue credit. The new system for settling accounts, which has been in effect since 1 August of this year, is based primarily on the following notes: checks, promissory notes, and money orders. These notes are completely negotiable securities, and they are a type of monetary note and circulating note. They can be endorsed or used as a form of payment when goods change hands. They are much more liquid than most securities. They serve as proof of financial claim, and the purpose of such a financial claim is to represent payment of a given quantity of money. After this method of settling accounts, based primarily on these notes, is established, a certain amount of new credit can be created, enterprises can be reinvigorated, the turnover of funds can be accelerated, the interests of both buyers and sellers can be protected, the problem of overdue payment for goods can be resolved, and pressure on bank credit can be lightened. This would help to alleviate the shortage of funds, and would spur development of the commodity economy.

2. Enterprises must establish a bank mechanism, factories must establish "in-house banks," and management of funds must be strengthened. Currently, a problem exists in many enterprises in which "large quantities of operating funds are appropriated, turnover is slow, and benefits are low." This is very harmful to the effort to alleviate the imbalance between supply and demand for funds. Strengthening management of operating funds and accelerating the turnover of circulating funds has become an urgent task. As enterprises implement the contract responsibility system and organize internally into small accounting units, continued use of old methods of funds management is no longer suited to the development of reform, so those methods must be reformed. In order to achieve this, factories can implement an "in-house bank" management system, in which the whole range of account settlement techniques used by banks would be incorporated into the methods used

by enterprises to settle internal financial accounts. This would cause the allocation relationships that exist between different levels and different production processes to be changed to buy-sell relationships. The "in-house bank" would carry out a system of savings, loans, and interest, and would rigorously implement an economic responsibility system for funds appropriations in which compensation is paid when funds are appropriated, low interest is imposed for quota funds and high interest is imposed for funds in excess of quota, awards are granted when funds are conserved, and when funds in excess of quota are appropriated, not only is extra interest paid, but fines are also imposed. In this way, by utilizing the concepts of "interest on funds" and "borrowing and lending of funds," the various accounting units within each enterprise can be prompted to pay attention to the appropriation of funds, and the efficiency of their use. This is an important method by which enterprises can establish self-supervision, perfect the management mechanism, accelerate the turnover of funds, and alleviate the shortage of funds.

3. We must reform the way circulating funds are supplied and managed, prompt enterprises to become more self-reliant, and conserve on use of funds. Originally, circulating funds within the quota for China's enterprises were supplied through fiscal network, while those in excess of quota were taken care of by banks. However, since the new method was implemented in 1984, credit funds have been subject to unified management by banks. "Unified management" became "unified supply." Fiscal departments considered the matter none of their business. This has been accompanied by the universal trend among enterprises to expand the scope of production and improve benefits for their workers and staff. This has overloaded the banks. In order to change this irrational situation, I suggest that the relevant departments of the state study ways to reform the current method of supplying and managing credit funds. There must be a clear regulation to the effect that quotas for needed credit funds and their sources must both be studied and handed down to the banks when the state plan and the departments in charge of the various industries set targets for the national economy's growth rate and the scope of fixed asset investment. The method that only considers fixed asset investment and ignores the source of credit funds must be reformed. Banks can distribute funds according to the plan, and can exercise oversight.

4. We must constantly perfect credit practices, aggressively organize syndicated loans, concentrate credit funds, and support the needs of key enterprises. Syndicated loans are a very common way of making loans in developed countries. Through the lead bank, they concentrate credit funds which are scattered among separate financial institutions. In accordance with the policy of steering credit toward certain areas and the principle of increasing effective supply, we must target our support for those enterprises which exert a relatively large impact upon the national economy and the people's livelihood.

In this way, several things can be achieved: One thing is that scattered credit funds can be concentrated, which makes it possible to undertake some projects which would be impossible with more limited funds. A second thing is that syndicated loans come from a number of different financial organs, which can spur the recipient of such a loan to be doubly cautious about making efficient use of its credit funds in order to protect its reputation. A third thing is that if the enterprise which receives the syndicated loan experiences a failure, the losses can be shared by all of the banks participating in the loan, which reduces risk. For this reason, Shanghai, with the People's Bank serving as the leading bank, organized a group of specialized banks and nonbank financial organs to raise a 20 million yuan syndicated loan for the airlines in the Orient. The municipality is also going to gradually expand use of syndicated loans.

5. We must aggressively adjust the industrial structure, the product mix, and the structure of credit funds utilization. Everyone knows that enterprise production can be largely normal if the various departments within the national economy have a rational industrial structure. Under such conditions, there is generally a smooth feedback of funds which are invested in production in the form of currency after they have passed through the production and marketing stages. In terms of the total amount of credit funds in Shanghai Municipality, it should have been easy to support the current rate of economic growth under the "protect five and compete six" [bao wu zheng liu 0202 0063 3630 0362] policy, but because industrial structure and the product mix are irrational, in bank credit work it is easy to "support the best" but difficult to "pressure the worst." Drastic measures should have been taken to deal with enterprises in the third and fourth categories. Old loans should have been called in, and new loans stopped, but this has been difficult to carry out. In order to make limited funds have a greater effect, we should adopt the principles of keeping meticulous track of every penny and making rational use of funds, and adjust the industrial structure and the product mix, and treat different things differently. 1) We must rigorously take guidance from the industrial policy. Some enterprises must be protected, and others must be pressured. Funds must be concentrated, and the adjustment of the industrial structure must be pushed forward. I suggest that the municipal government support every measure by banks to cease making new loans to enterprises that should be discontinued, closed, or have production suspended, and to call back loans which had been made to them. These discontinued enterprises can be merged with others in the marketplace. 2) We must earnestly and thoroughly carry out the policy of targeting credit for certain types of enterprises. We must adopt the principles of "optimizing the increased volume and improving the reserve capacity." We must strictly follow the directives of the industrial policy at any particular time as we allocate loan increases in an orderly manner. Funds that have been tied up in an irrational manner absolutely must be called back. Even if it is a key enterprise that has tied up funds

in an irrational manner, same amount of loans should be reduced in order to bring about a clear change in the credit structure. Only in this way can there be a dependable source of funds, and only in this way can we assure the optimization of increments. 3) We must cut out, with a single stroke, loans to some processing industries that have been developing blindly, especially some township industries that expend large amounts of energy, pollute heavily, and are highly inefficient. The funds thus saved should be used for key large- and medium-sized enterprises involved in energy resources, raw materials, and products for which demand is heavy, as well as for enterprises which export and earn foreign exchange, in order to achieve relatively large success in effective utilization of funds and in increasing supply effectively as soon as possible.

Call for Improving Economic Rectification, Reform

9001102474 Shanghai WEN HUI BAO in Chinese
9 Dec. 89 pp 1, 4

[Article by Huang Ju (806 5468) Vice Mayor of Shanghai "Further Improve the Economic Environment, Rectify the Economic Order, and Intensify Reform"]

[Text] The "Decision on Further Improving the Economic Environment, Rectifying the Economic Order, and Intensifying Reform" adopted at the 5th Plenary Session of the 3th CPC Central Committee is an important guide for our economic work now and in the foreseeable future. It comprehensively analyzes the economic situation currently facing China and puts forward major tasks and key measures to further improve the economic environment, rectify the economic order, and intensify reform. If we study and live up to the spirit of the 5th Plenary Session in earnest and implement the various measures in the "Decision," we will certainly be able to overcome the difficulties and gradually put the Shanghai economy on the track of sustained, stable, and coordinated development, at the same time making even more contributions to the nation.

1. Analyze Shanghai's Current Economic Situation Comprehensively and Objectively

Correctly analyzing the situation is basic to policymaking. The "Decision" adopted by the 5th Plenary Session, for instance, rests on a scientific analysis of the national economic situation. Now as we work out a plan to further improve the economic environment, rectify the economic order, and fulfill the spirit of the "Decision" across the board, we must analyze in depth Shanghai's economic situation and market conditions in recent years.

1) The tremendous achievements of reform and the open policy in Shanghai must be fully affirmed.

Like the rest of the nation, Shanghai has had towering achievements in reform and the open policy under the leadership of the CPC Central Committee and the State Council in the 10 years since the 3d Plenary Session of

the 11th CPC Central Committee. In the five years since 1984, in particular, Shanghai experienced significant changes both institutionally and developmentally. Propelled by reform and the open policy, the national economy and various undertakings made significant progress.

The national economy continued to grow at a steady and appropriate pace. Since 1984, Shanghai has adhered to the principle of reform, opening up, and economic vitalization, making major efforts to overcome miscellaneous difficulties that cropped up in the transition from the old to the new systems and maintained steady economic growth. In 1988, the municipality's total output value reached 61.2 billion yuan, 40.1 percent more than in 1984, for an average annual growth rate of 8.8 percent. Industrial output value rose 9.0 percent annually on the average.

The open policy has made considerable progress. In foreign trade, exports hit \$4.605 billion in 1988, a historic high. This followed a 16.1 percent increase in 1987 and ended years of stagnation in the export sector. Foreign investment from increasingly diversified channels is being utilized on an ever-widening scale. The three economic and technological development areas—Minxing, Hongqiao, and Caohe—are beginning to take shape. The 94 "special projects" are being put together. A start has been made in land leasing. The investment climate is being improved gradually. By the end of 1988, Shanghai had signed \$4.377 billion worth of contracts involving foreign investment, of which almost half was direct foreign investment. Most of the contracts were signed in recent years.

The tertiary industry has made big strides. In accordance with the demand of the Shanghai economic development strategy that a major effort be made to develop the tertiary industry, considerable progress has been made in commerce, banking, tourism, services, science, technology, culture, education, and public health. In 1988 the tertiary industry accounted for 29.6 percent of the municipality's gross output value, up from 25.1 percent in 1984, rising by almost one percentage point each year. As a result, the industrial structure is now much improved.

The improvement of the urban infrastructure has been quickened. Since 1985 this municipality has been spending significantly more money on its urban infrastructure. By building a new railroad terminal and completing Phase I of the water diversion project at the upper reaches of Huangpu Jiang, Phase I of the Shitongkou electric power plant project, Phase I of the Pudong gas works project, the underwater tunnel on Yanan Dong Lu, Phase I of the external route of the Shanghai-Hangzhou railroad, the Shanghai International Telecommunications Building, and the expansion of the terminal building at Hongqiao Airport, the municipality has improved its erstwhile woefully backward infrastructure. This will help it fulfill its comprehensive urban functions.

The living standards of both urban and rural residents have improved. Because of economic development, the incomes of urban and rural residents have increased rapidly in the last five years. Compared to 1984, workers' incomes in 1988 were substantially higher, averaging annual increase of 5.8 percent over the five-year period, even after discounting the factor of price increases. Savings by urban and rural residents rose from 5.61 billion yuan in 1984 to 14,121,000,000 yuan in 1988, a 2.5-fold increase.

Shanghai continues to make significant contributions to the nation. Between 1984 and 1988, it turned over to the state a total of 124.04 billion yuan in profits and taxes, including 83.74 billion yuan in local revenues, \$19.22 billion in foreign exchange earned by exports, and 81.22 billion yuan in commodities shipped to other parts of the country. Shanghai has continued to contribute immensely to the nation's socialist modernization.

Shanghai's achievements in these five years are the fruit of joint efforts by the entire citizenry under the leadership of the municipal CPC committee and the municipal government. They are also inseparable from the caring and support of the CPC Central Committee and the State Council. In these five years the state has handed Shanghai a succession of policies that strengthened Shanghai's economic vitality and prowess.

2) We must fully appreciate the serious difficulties facing Shanghai today.

Even as we fully affirm achievements, we must not underestimate the serious difficulties confronting us. Right now Shanghai faces glaring problems in three areas:

First, energy and raw material shortages, lack of funds, and a backward urban infrastructure continue to be a major impediment to economic development in Shanghai. In particular, the shortage of "two whites and one black" (that is, rice, cotton, and coal) has been a drag on the economy in recent years.

Second, in the wake of changes in the macroeconomic environment, finance contracting, foreign trade contracting, separate credit fund management, and enterprise contracting have all run into grave difficulties. In particular, the prices of some capital goods and agricultural byproducts have kept going up. Foreign trade losses and government subsidies as well as enterprise costs have been mounting. The result is a steep decline in profits. It has now become increasingly difficult to balance the government budget and foreign exchange incomes with expenditures.

Third, the market has been softening and industrial deceleration has been too rapid, which hurts all facets of economic life. Moreover, since the various quarters are overburdened, conditions of competition are unequal and industries have limited ability to shift gears. Many difficulties will not be ameliorated in the foreseeable future and may worsen on the contrary.

The problems Shanghai faces today epitomize the deep-seated issues accumulated over the years in the nation's largest city. Party and government cadres at all levels in Shanghai must have a clear understanding of and be fully prepared for the grim situation looming ahead so that they can appreciate the necessity for, as well as the urgency and arduous nature of, improving the economic environment and rectifying the economic order.

3) Be fully aware of Shanghai's advantages as it goes about tackling the problems.

Indeed, Shanghai faces a bleak economic situation. However, it is also well placed in many ways to overcome the difficulties. At the opening ceremony for the Shanghai railroad terminal, Comrade Jiang Zemin offered a penetrating analysis of the situation prevailing then, saying, "Hope coexists with difficulty; opportunity goes hand in hand with challenge." What he said remains basically true today. Some problems have gotten worse over the past two years, but Shanghai is now better equipped to solve them. The successful convening of the 5th Plenary Session laid a solid foundation for our drive to improve the economic environment, rectify the economic order, and intensify reform. Shanghai's formidable economic prowess and overall superiority in reform and the open policy make it that much easier for the city to survive the present crisis. Over the past year, particularly since the 4th Plenary Session, Shanghai has been working hard on 10 fronts with a measure of initial success. In the process it has become more confident about improving the economic environment, rectifying the economic order, and intensifying reform. This is essentially what it has done: 1) Launching a full investigation and cleaning-up operation. After months of intense work, we have largely completed the investigation of major incidents, concentrating our resources on cracking down a bunch of serious criminals. 2) Our battle with corruption and bribery has been fairly successful. After the promulgation of the "Public Notice" by the Supreme People's Court and the Supreme People's Procuratorate, in particular, the camp of criminal elements split up and 1,759 people turned themselves in, giving the national campaign against corruption and bribery a big boost. 3) Companies have been cleaned up and consolidated. The problem of cadres above the bureau level holding concurrent jobs in a company has basically been straightened out. Of the six municipality-level companies with a major impact on the municipality, three were abolished, two were merged, and one was retained. Companies continue to be cleaned up and consolidated with rising momentum. 4) Achieving honesty throughout government. The focus last year was on netting 506 bureau-level cadres currently in office. This year we will extend our effort gradually to department-level cadres, beginning with leading cadres at all levels themselves in order to expedite a change in the atmosphere in all departments, institutions, and society at large. 5) Continuing to stabilize the market and commodity prices. Since the beginning of this year, we have brought down the retail price index month after month by strictly controlling the

prices of 19 major daily consumer goods, stepping up the supervision and control of 15 basic consumer goods and beefing up the management of market prices. In November the index dropped to 7.1 percent. For the year as a whole, it is expected to dip below 18 percent, three percentage points lower than last year. 6) Firmly limiting the scale of fixed assets investment. In a radical overhaul in the second half of the year, a number of projects under construction were either eliminated or postponed. Everything was done to make the scale of investment stay within the target issued by the state. Compared to last year, fixed assets investment fell 35 percent. 7) Firmly curbing the excessive growth of consumption funds. Macroeconomic management of consumption funds has been strengthened since the beginning of year. Each level was given a target to aim for. Notices of criticism on unjustifiable increases in bonus were circulated, thus blunting the trend toward ballooning consumption funds. In the first 11 months, total wages of local units owned by the whole people increased 15 percent or so, while workers' wages grew about 16.9 percent on the average, both lower than the national averages. 8) Readjusting the industrial structure aggressively. At the beginning of the year a plan was drawn up to adjust the industrial structure this year and next. We decided to eliminate a number of energy-intensive products that caused serious pollution and did not sell well on the market and close, merge, or shift to other lines of business a host of inefficient enterprises whose costs were high and whose products were unpopular. Instead, we would concentrate on 220 famous, high-quality, or special local products that enjoy brisk sales and earn foreign exchange overseas. Their output growth exceeds 10 to 20 percent in most cases. 9) Continuing to intensify reform and expand the open policy. Even as we continued to improve the contract management responsibility system and the factory director responsibility system, we experimented with the foreign trade agent system across the board and introduced industry-trade dual contracting in leading export-oriented textile enterprises throughout the municipality. An all-out effort will be made to earn \$5 billion in foreign exchange from our exports, which represents a 10 percent increase, another historic high. Turning to the direct utilization of foreign capital, a total of 190 projects were attracted from January through November, worth \$356 million in foreign capital in all, more than all foreign investment last year. The trend in foreign investment remains favorable. 10) Intensifying political and ideological work in earnest. Recently we convened a conference for rural cadres, a conference for political and ideological work in enterprises, and a conference for political and ideological work in schools. We unified thinking, set a clear direction, enhanced our morale, strengthened the unity among grassroots party and government leading cadres, and increased our confidence that together we could do a good job in ideological and political work, all in accordance with the requirements of "stability and inspiration."

The session of the municipal CPC committee which closed recently enabled party organizations at all levels in the municipality to unify thinking and action, fulfill the spirit of the 5th Plenary Session, and unite party members with the masses throughout Shanghai in an arduous struggle to survive this crisis together.

II. The Four Relationships Must Be Handled Properly if We Are To Fulfill the Spirit of the 5th Plenary Session All Round

The "Decision" adopted by the 5th Plenary Session is a programmatic document designed to mobilize the entire party and the whole population in a united struggle to overcome the current economic difficulties so as to put the national economy on a path of sustained, stable, and coordinated development and pave the way for quadrupling the gross output value by the end of the century. As far as Shanghai is concerned, we must sort out these four relationships if we are to fulfill the spirit of the 5th Plenary Session:

1) The relationship between partial interests and general interests

Leading comrades on the CPC Central Committee said recently, "If the situation as a whole cannot be stabilized, local prosperity cannot last long. Short-term personal interests damage long-term collective interests and will be destroyed in the end. At this critical juncture when the nation is facing serious difficulties, we must study and appreciate the guiding spirit of the central leading comrades and base ourselves on Shanghai but think of the overall situation. We must think what the nation thinks, worry what the nation worries, and subordinate our interests to the fundamental interests of the state conscientiously. We must see that Shanghai belongs to the nation, that Shanghai's construction cannot do without the nation's support, and that Shanghai is duty bound to make greater contributions to the state. We must handle a string of relationships properly: between the part and the whole, between the microeconomy and the macroeconomy, between the immediate and the long-term, between enterprises and the state, between local and the center. Right now we must concentrate on reconciling the local with the central and the part with the whole, promote the spirit that the "entire nation is a chessboard," support the nation in strengthening centralization and unity, and firmly oppose separatism. While we must combine economic planning with market regulation, we should stress the former a little more right now. We support measures outlined in the "Decision" to "enlarge the revenues of the central government as a proportion of total revenues" and tighten organizational discipline. We should work together with one heart and do our best to solve the nation's problems and improve the economic environment without delay.

2) The relationship between limiting total volume and adjusting the structure

The economic difficulties in China today largely stem from the fact that total social demand far exceeds total

social supply, the scale of construction has grown so enormous and social consumer demand so bloated that they cannot be sustained by current national power and social productive capacity. Thus resolutely controlling total social demand remains a top priority in our drive to further improve the economic environment and rectify the economic order. As social demand is being gradually brought under control, however, the market has weakened and industrial deceleration has been too rapid. These problems are worth noting. How to overcome new problems that appear in the course of retrenchment? Apart from adjusting the macroeconomic policies and the use of principal economic tools at the appropriate time, we should spend time and energy modifying the economic structure. As we fine-tune the economy in the process of economic rectification, we should consider how to overcome the current problems, of course, but also think of Shanghai's urban functions and long-term development and combine the two. To make Shanghai an open multifunction economic center, we must contemplate adjusting the industrial structure and the distribution of productive forces in a comprehensive way. We must adjust the product mix in accordance with the principle of "four smalls and two highs" in light of changes in the domestic and foreign markets and by making the most of Shanghai's comprehensive advantages. We must adjust the technical structure of Shanghai to cater to the domestic as well as international markets. We must adjust enterprise organizational structure in order to create enterprise corporations centered on large- and mid-sized enterprises. At a time when we are trying to curb total volume, we must adjust and improve management to rationalize Shanghai's economic structure, raising economy efficiency and changing its economic landscape.

3) The relationship between improving the economic environment and rectifying the economic order, on the one hand, and intensifying reform, on the other

Improving the economic environment and rectifying the economic order, on the one hand, and intensifying reform, on the other, are not mutually exclusive. The former is no "tightening the screws," the latter no "loosening the screws." Both revolve around, serve, and are unified in one goal: developing the economy in a sustained, stable, and coordinated way. Moreover, the two are inherently interrelated. The economic environment is being improved and economic order rectified within the framework of reform and the open policy. They create the necessary conditions for the smooth execution of reform and the open policy. They also need to be coordinated with reform and the open policy. At a time when we are concentrating our resources on improving the economic environment and rectifying the economic order, reform must serve the principal objective. The latest round of economic rectification takes place after a hugely successful decade of reform and the open policy and after the old economic relations have undergone drastic changes. As a matter of fact, many measures designed to improve the economic environment and rectify the economic order are precisely those

that will intensify reform. For instance, nowadays we emphasize stepping up centralization and unity as appropriate and intensifying planning, but this is not a call to return to the uniform and highly centralized command planning of the past. Nor is it a call to take back the authority delegated to localities and enterprises. Therefore, we cannot rely on more command planning and administrative measures alone. Instead we must use a mix of economic, legal, and administrative tools and improve the existing two-tier system of regulation and control, the central government and the localities. That way economic rectification and reform intensification become one. Take another example, the adjustment of the enterprise organizational structure. Here we must not simply go back to the past by reviving the administrative company. Instead we must find through experimentation a form of enterprise corporations suited to the needs of developing a socialist planned commodity economy. In terms of methods too we will not again compel enterprises to merge through administrative means, but bring about organic unions through a mix of government guidance, enterprise mergers, voluntary association, and economic and legal tools, and map out a new course of enterprise organizational and structural adjustment. At the same time, depending on practical needs, we must launch a number of pilot projects in reform to pave the way for the next step in reform.

Now that the domestic industrial structure is becoming increasingly homogeneous, domestic demand is being curbed, the domestic market is softening, and competition is getting more and more ferocious, Shanghai's only way out is to sell more abroad. Also, the only solution to its chronic fund and raw material shortages is to utilize capital goods provided by the international market more extensively. In the process of improving the economic environment, rectifying the economic order, and intensifying reform, Shanghai not only cannot close its door to the outside world, but must, on the contrary, fully utilize its many advantages—its favorable international image, improved investment environment, an exceptional geographical position, a strong all-round economy, and extensive foreign connections—to make known its adherence to reform and the open policy. It must abide by the principles of "export-orientation" and "import substitution" and successfully "begin and end the production process on the international market by importing raw materials and exporting finished products, and speed up the transformation of its economy into an export-oriented one. This is the road Shanghai must follow in order to fulfill the mission of improving the economic environment, rectifying the economic order, and intensifying reform and vitalization.

4) The relationship between economic work and political and ideological work

Comrade Deng Xiaoping pointed out recently, "The unrest has taught us a profound lesson. During the past several years, some of our comrades immersed themselves in practical things, uninterested in the political situation and paying scant attention to ideological work.

They were not sufficiently vigilant toward corrupt signs and did not take effective corrective actions." These were penetrating words. We must learn a lesson from the "one hand soft, one hand tough" of a few years back. Even as we steadfastly stick to economic construction as our goal and devote all our attention to its accomplishment, we must strengthen party leadership, intensify political and ideological work, particularly ideological and political issues in economic work, and make full use of party organizations as the core of leadership and fighting bastion. This is determined by the nature of the socialist enterprise dominated by public ownership and is also a basic guarantee of the success of economic work. At the moment, we must further improve the relations between party and government leading cadres at all levels, particularly that between the enterprise director and the party secretary. They should support and cooperate with one another and lead the rank-and-file workers and party members in a united struggle to weather this crisis.

Only by correctly handling these four relationships can we firmly establish the idea of the whole and the idea of tightening our belts for a few years, strengthen centralization and unity as appropriate, and closely integrate economic rectification with reform so that political and ideological work meshes with economic work and make economic work truly contribute to the overriding objective of economic efficiency.

III. Major Tasks Involved in Further Improving the Economic Environment, Rectifying the Economic Order, and Intensifying Reform

Right now we are putting together a team to work out an overall plan to further improve the economic environment, rectify the economic order, and intensify reform in Shanghai as well as drawing up a plan for next year. Faced with a grim economic situation and arduous tasks, the municipal party committee and municipal government believe that our goals must be clear, our resolve must be firm, our actions must be decisive, and our steps must be steady in an all out effort to achieve stability through economic rectification, seek improvements through structural adjustment and better management, and strive for development through further reform and the open policy so that Shanghai's economy can get onto the track of sustained, stable, and coordinated development and contribute even more to the nation. In the next few years, accordingly, we must expend a good deal of effort on adjustment, rectification, management, and reform, stressing the following aspects.

First, continue to tackle economic stabilization as a priority

At present stabilization takes precedence over everything else. Economic stability is the cornerstone of political and social stability. As we further improve the economic environment and rectify the economic order, we must work hard to maintain market and price stability and keep the economy growing at a reasonable

pace in the interest of overall economic, political, and social stability. Accordingly, we must continue to stabilize commodity prices and never slacken the management of commodities under price control and those under supervision. We must continue to tackle "bread basket engineering" aggressively, stabilize and improve the supply of daily necessities and nonstaple foodstuffs, and do our best to lower the commodity retail price index gradually over the years. Also, industrial production has been registering negative growth. That must stop, and quickly, we must do everything to overcome market sluggishness and other difficulties, and bottom out as soon as possible. We must maintain stable appropriate growth, keep industrial production and the entire national economy growing at a suitable pace, and strive to increase effective supply. We must continue to open up employment opportunities and try earnestly to provide training for workers waiting for employment and put them in jobs. The social security system must be perfected and social stability maintained.

Second, further adjust the investment mix and make a strenuous effort to increase economic efficiency.

Reducing the scale of fixed assets investment is an important part of controlling total social demand. At present the problems of over-investment and overextended battlelines exist in Shanghai as well. As far as investment scale is concerned, there is the idea that "you are bigger than I, you are longer than I." This idea must be gotten rid of. We must subordinate our interests to the overall situation and act according to our capability. When the overall scale becomes too large, it must be reduced. When the battle line is over-extended, it must be shortened. That way resources can be made available for key projects. In the process of improving the economic environment, rectifying the economic order, and intensifying reform, the scale of investment in the municipality will largely be maintained at the present level. That being the case, we must work hard to adjust the investment mix and increase the returns on investment. Generally speaking, this means concentrating what limited financial and material resources we have on priority projects to ensure that they are completed and put into production. Our plan should give priority to major projects currently under construction or nearing completion, projects that will increase exports and earn more foreign exchange, as well as projects involving foreigners on which a contract has already been signed. New projects should be strictly restricted. Next year resources must be concentrated to ensure the completion of about two dozen priority projects in the municipality, guaranteeing them material and financial resources. Only then would provisions be made for other projects.

Centralization would be stepped up as appropriate in the management of investment planning. Dual control, that is, control on the annual investment scale and on the overall scale of projects under construction, would be imposed to meet the requirement that priority projects be secured and ordinary projects curtailed.

Third, continue to prevent consumption funds from growing too rapidly and gradually reduce the inequality of social distribution.

Curbing consumption funds, particularly incomes on the side, social institutional consumption, and welfare consumption, is an onerous job. In the process of improving the economic environment, rectifying the economic order, and intensifying reform, practical steps must be taken to reduce the control on total wages. Moreover, in conjunction with the rectification of circulation, a satisfactory way must be found to peg total wages to efficiency. The collection and management of personal regulatory taxes must be improved. Glaring inequalities in income distribution must be gradually resolved. To improve the management of consumption funds in the municipality, consideration is being given to broadening the functions and powers of labor agencies managing workers' wages in order to augment the macroeconomic management and coordination of consumption funds.

Fourth, adjust the industrial structure aggressively and improve macroeconomic efficiency.

As far as the industrial structure is concerned, the most important thing is to continue to implement the product mix adjustment plan this year and next in light of changes on the international and domestic markets. When that is accomplished, we will designate a batch of priority enterprises and products for preferential treatment. The tentative idea is to select about 200 enterprises in Shanghai for special treatment in the allocation of production tasks, materials supply, credit, and transportation. The idea is to concentrate resources on the production of exports, products in support of agriculture, raw materials in short supply, and products selling briskly on the market as a way of boosting economic efficiency significantly. At the same time, in tandem with adjustments in the urban plan, we should resolve to close, suspend, merge, and shift to other lines of business a number of backward enterprises. As part of enterprise reorganization and consolidation, municipal leaders propose to study a number of major industries in depth and assist the parties involved to selectively and gradually establish as demonstration projects some enterprise corporations with substantial economic muscle and a large market share. Township and town enterprises in outlying counties should continue to adjust their structure, improve management, optimize resource allocation, and develop even more healthily, all the while expanding exports, supplying parts for large industries, and supporting agricultural production. Agricultural production in the outlying areas is enormously significant for stabilizing the entire municipality's economy and ensuring the availability of nonstaple foodstuffs for urban residents. We must firmly live up to the spirit of the 5th Plenary Session—"the whole party and the entire nation should be mobilized to run agriculture well," adhere to the guiding idea that agriculture is the base and the principle of "two footholds," and intensify the planned guidance of agriculture. All trades and professions must

give strong support to agriculture, increase the necessary inputs in agriculture, and promote its sustained and steady development.

Even as we strengthen agriculture and other basic industries and accelerate the transformation of traditional industries, we must continue to develop the tertiary industry, nurture mainstay industries, and foster new industries in a focused way. That way we will gradually achieve the rationalization of the industrial structure and redouble the momentum for future development.

Fifth, straighten out the circulation order and make the most of state-run commercial departments as the main channels.

The chaos in circulation, particularly the excessive and reckless proliferation of companies, remains an outstanding problem. As part of the rectification and streamlining of companies, we should vigorously clean up assorted companies and business units engaged in profiteering as middlemen, as well as all kinds of service companies set up by production enterprises to raise ex-factory prices in disguised ways and practice reselling at huge profits. Intermediate links that disrupt the market and drive up prices must be eliminated with determination. By cleaning up and streamlining companies, restoring market order, and beefing up market management energetically, we should be able to stop the wanton exaction of fees, compulsory apportionment of financial burdens, and unreasonable imposition of fines, gradually restore circulation order, pluck loopholes, and reduce all kinds of losses and subsidies. Also, we should assiduously foster state-owned commercial departments as far as funds, sources of merchandise, transportation, and interest rates are concerned to make the most of them as the major channels and reservoirs.

Sixth, improve enterprise management in earnest and tap their potential in every possible way.

As we continue to hold the line on total volume and follow a retrenchment policy at the macroeconomic level in the process of improving the economic environment, rectifying the economic order, and intensifying reform, we must adopt an intensive strategy to develop our economy and, by improving enterprise management and relying on scientific and technical advances, vigorously step up "double economy and double increase" activities. Through the optimal allocation of existing capital goods, we hope to increase output and efficiency through economies, thereby working out a new approach that requires fewer inputs but produces more outputs and raises economic efficiency. Toward that end, we must improve enterprise management and overcome the phenomenon of "substituting the contract system for management." We must take effective steps to transform into specific targets such demands as lowering costs, cutting down on consumption, improving quality, increasing varieties, reducing the use of funds, and raising economic efficiency, and see that they are met level after level. Such demands should also serve as leading criteria

in assessing the performance of economic organizations and enterprises at all levels. In the process of improving the economic environment and rectifying the economic order, we must launch a sustained and profound socialist labor emulation campaign revolving around "double economy and double increase" to mobilize the enthusiasm and initiative of the entire population, particularly the 2 million industrial workers, and bring out the potential of enterprises as a means of raising labor productivity. Losses must be trimmed and surpluses increased; at present, enterprises are suffering mounting losses in more and more areas. We must further improve the responsibility system in its various forms such as lease contracting so as to reduce and eliminate losses. Profitable trades and enterprises should also work hard to phase out money-losing products to further improve their profitability.

Seventh, adhere to and improve existing reform measures and perfect macroeconomic management in earnest.

In the process of improving the economic environment and rectifying the economic order, Shanghai has three reform focuses. One, improve and perfect finance contracting, foreign trade contracting, enterprise contracting, and separate credit management. Two, improve planned management because of the need to intensify planning. Three, improve management at the two levels, municipal and district county, to further unleash county initiative. At present, we must pay special attention to restricting total volume and achieving a comprehensive macroeconomic balance. Accordingly, we must get a handle on such major balances as credit, foreign exchange, and materials, and look for ways to balance the budget and foreign exchange account the same year and even come up with a surplus. Old debt should be retired gradually. Steps should be taken to increase revenues and decrease expenditures so as to balance the supply and demand of credit funds and materials. While we are currently engaged in the diversification of financial resources, funds, foreign exchange, and materials, we should also employ a mix of administrative, economic, and legal tools to strengthen centralized planning. Strict control should be imposed on financial resources, funds, and other resources used for investment and consumption in accordance with the unified demand of the plan to improve the economic environment and rectify the economic order. The direction of investment should be controlled. To revitalize large- and mid-sized state-owned enterprises, nurture the development of mainstay industries, and build up basic industries, we must also work out a tilting policy if necessary, supporting them with capital goods, etc. After repeated discussions, we propose to set up a comprehensive economic agency involving the municipal planning commission, the finance department, banks, the price bureau, and the labor bureau, in order to better tackle such major balances as finance, credit, foreign exchange, and materials, as well as tide over the serious crisis with a combination of economic, legal, administrative, and other regulatory tools. In view of the complexity of the issues facing a

large city like Shanghai, it is also proposed that three committees—on planning, construction, and management—be set up to take care of their own respective areas in a reasonable division of labor and together do a good job in urban development.

Eighth, continue to expand the open policy and accelerate the development of an export-oriented economy.

To open Shanghai's door wider to the outside world, we must improve the foreign trade contracting system and put foreign trade on a solid footing, successfully "beginning and ending the production process on the international market by importing raw materials and exporting finished products." Foreign exchange from both trade and nontrade sources must continue to increase from the level this year. At the same time, the investment environment must be further improved to attract even more foreign businessmen to invest in Shanghai. Existing enterprises must be managed properly. As for new enterprises of the "three capital sources," they must be carefully guided by the industrial policy. A satisfactory balance must be achieved between the share of their output sold domestically and that destined for the foreign market. They should also be given the necessary support in the supply of energy, raw materials, and funds in order to maintain Shanghai's strong momentum in the utilization of foreign capital. To meet the needs of further opening up to the outside world, we must prepare for the development of Pudong. Planning for the development of Pudong and preparation for the first phase of its construction must be tackled with additional vigor.

The economic situation facing Shanghai today remains very grim. The tasks next year promise to be extraordinarily daunting. Still, we are well positioned in many ways to weather the difficulties. Under the leadership of the party and State Council and with the strong support of the various central agencies and other provinces and municipalities, we will certainly be able to accomplish the various tasks involved in improving the economic environment, rectifying the economic order, and intensifying reform next year, survive the crisis, and score new victories, provided the rank-and-file of the party and the masses study earnestly and implement fully the spirit of the 5th Plenary Session, carry out the tasks put forward by the enlarged meeting of the session of the municipal party committee, rouse themselves with enthusiasm, and quietly immerse themselves in hard work.

Economic Prospects for Six Eastern Provinces

90CH03254 Shanghai JIEFANG BAO in Chinese
2 Jan 90 p 8

[Article: "Eighties: Reform and Opening Up to the Outside World Infuse Energy for the Vigorous Development of the Economy. Nineties: Improvement and Rectification Move Steadily Toward the 21st Century—Six Eastern Provinces Look Back and Looking Ahead at the Economic Situation"]

[Excerpts] [passage omitted] In 1989 the party Central Committee and the State Council put forward a policy for improving the economic environment and rectifying the economic order. After a year of hard work, in six eastern provinces results of this improvement and rectification have begun to appear, but there have also appeared some new situations worth noting.

II

Cai Mingde [559] 2494 1795: After a year of improvement and rectification, results have begun to appear in Jiangsu. First, because in Jiangsu industrial production and grain output respectively increased 3.92 percent and 0.6 percent as compared to those in 1988, the goal of increasing the effective supply has already been reached. Second, in 1989, for the province as a whole, the total amount of investment in fixed assets was 27 percent lower than that of the year before, the consumption fund also fell. If we deduct the factor of price rises, in the first 10 months of 1989 there was actually a negative growth in social group consumption, a situation that brought under control the inflated demand of the past. Third, the market is stable. The amount of price rises has fallen month by month, and in October it was controlled within one-digit numbers. Through sorting out and reorganizing companies, order in the circulation domain took a big turn for the better. Fourth, in the first 10 months of 1989 there was an increase of 10.8 percent in financial revenue compared with that of last year. The financial situation is good, and there has been a big rise in bank deposits.

Gong Sang [1362 2718]: In 1989 Zhejiang Province, in line with the State Council's demand for improvement and rectification, put into effect a series of policies and measures with the control of demand and the readjustment of structure as their key points, and obtained definite results in this respect. The rate of industrialization fell. In agriculture, late rice total output set the highest record in history, 30,000 more tons than in last year. The scale of investment in fixed assets was reduced. In the year as a whole, 1,683 construction projects were stopped or postponed, and investment was cut by 2 billion yuan. In the rural areas there was a lowering of temperature in the "housing construction fever," and the situation in the supply of "food baskets" took a turn for the better. In Kangzhou City in the fourth quarter of 1989, the price subsidies for nonstaple foodstuffs took a downward turn, showing that the prices of the main nonstaple foodstuffs were falling steadily.

Ni Zhimin [0242 1807 2404]: In the past year Anhui Province stopped or postponed 549 construction projects, cut the scale of investment by 1.63 billion yuan, and cut the amount of surplus work in construction by 1.23 billion yuan, thereby checking the momentum of inflation in the scale of investment. The focus of investment have begun to turn toward agriculture, energy, education, transportation, and post and telecommunications. In the province as a whole, 897 companies run by party and government organizations have been sorted

out. Price rises have begun to recede, being 12.4 percent less in October than in April.

Xiong Xingqin [3574 1840 0530]. In the improvement and rectification in Jiangxi Province, with the important points of the industrial policy as the guide, agriculture has truly been put in first place. The serious flood disaster of 1989 has been overcome, and agriculture's gross output value is forecast to be 11.65 billion yuan, a growth of five percent over that of 1988, and the peasant's average net income could be 60 to 70 yuan more than in 1988. In the readjustment of the industrial structure, a moderate degree of growth has been obtained. From January to October 1989, the province's industrial gross output value grew by 9.4 percent as compared to that of the same period in 1988.

Yan Zhenyu [7346 2182 8148]. In the past year initial results have been obtained in Fujian Province's improvement and rectification. The scale of investment in fixed assets was cut, progress was made in sorting out and reorganizing companies, and prices fell after a rise. The real output of grain reached 8.8 billion kilograms, and the annual foreign trade plan was fulfilled.

Liang Guodian [4731 0948 0368]. After a year of hard work, distinct results have been achieved in improvement and rectification in Shandong Province. Under the circumstances in which it has encountered two years of protracted dryness, agriculture still had a good harvest. The industrialization rate is stable and basic industry is stronger, financial income is greater than outflow, and what is most important is that the people's feelings are calmer.

Fu Xianwei [0265 6343 0251]. In 1989 results were obtained in improvement and rectification, but some new situations appeared and they need to be resolved as soon as possible.

Cai Mingde. For a long time financial income and social welfare have had a certain link to the rate of production. Production has not yet completely shifted from a rate model to a results model, and although the rate has fallen the results have not yet risen correspondingly. If we continue to only give consideration to reducing the total amount and neglect the readjustment of the structure, the situation that has now appeared, namely, a sharp drop in the rate of industrial development, could continue.

The overture of the nineties is the improvement and rectification and the deepening of reform, and the climax and the epilogue of the nineties are even more reform and opening up to the outside world. Although throughout the nineties the East China region will still face a series of difficulties, such as a lack of natural resources and a fierce market competition, people are confident that the objective of quadrupling the gross national product will be attained ahead of time.

III

Fu Xianwei. The first thing put before the six eastern provinces in the nineties is to grasp firmly and solidly improvement and rectification in order to create conditions for the later sustained, stable, and coordinated development of the economy. Then, in the first several years of the nineties, beginning with this year, what are some of the actions that each province will take?

Liang Guodian. Shandong Province has decided, first of all, to control the scale of investment in fixed assets, making "marking time this year and next year" a firm target to resolutely implement, and in 1990 controlling the scale of investment in all localities in the province and in all of society at under 20 billion yuan. At the same time it will sort out and reorganize companies and reorganize the circulation domain, further perfect the commodity wholesale system, in which the state-run commerce, materials, and supply and marketing cooperatives are the main part and in which they are open in style, multichannelled, and have few rigamarole. Shandong Province will increase its role in agriculture. This year and next, the provincial finances used for capital construction in agriculture will grow by 20 percent or more a year, and the various kinds of agricultural development funds will grow by 15 percent or more a year, handling well water conservancy and the "scientific and technological promotion of agriculture."

Yan Zhenyu. Fujian Province has decided that the scale of investment this year and next year will be maintained at the 1989 level. Foreign capital will be used to strive for a fairly large development. The growth rate of the gross national product this year and next will be fixed at about eight percent, and an effort will be made to achieve a balance of revenue and expenditure in finances, credit and foreign exchange.

Cai Mingde. This year and next year the Jiangsu provincial government will take the following measures. First, after stabilizing policy and calming people's feelings, it will go on to meet the demand for stabilizing enterprises and stabilizing the economy. Second, it will insist that the practice of the factory director (manager) responsibility system not change, and insist that the contractual management responsibility system not change. Third, while getting a tight grip on punishing corruption and advocating honesty, it will clarify the demarcation line between relevant policies and insure that the enterprises' legitimate professional business activities are conducted in a regular fashion. Other measures to stabilize the economy will also be put into effect.

Fu Xianwei. The nineties are the key decade for China to move into the modernized 21st century. Through improvement and rectification, the economy of East China will be put on the track of sustained, stable, and coordinated development. However, in the long term there will still be many difficulties.

Ni Zhimin. In the nineties Anhui's economy faces a series of challenges—there are abundant material

resources, but their exploitation and utilization are inadequate, there is a large population, but the cities are not developed, although the national economy has a certain material and technological foundation, industry is undeveloped, the technological and management levels are low, and productive forces are fairly backward, the material income grows year by year, but the people are still not well-off, and in addition there is a serious shortage of construction funds. In the reform of the economic system there is constant progress, but economic relationships are still not smooth and the commodity economy is undeveloped.

Cai Mingde Jiangsu is short of natural resources, and its energy resources and raw materials are located far from markets. In recent years the prices of energy and raw materials have constantly risen, and industrial costs have increased daily, also, commodity markets face fierce competition. It will be difficult to resolve these difficulties within a short period of time.

Fu Xianwei Even if in the nineties there will be a series of difficulties and challenges to face, people are still confident of securing a glorious future.

Ni Zhimin The strategic goals for economic development at the end of this century set by the Anhui government are: a gross national product of about 96 billion yuan, a national income of about 74 billion yuan, and an industrial-agricultural gross output value of about 130 billion yuan, making the province into one with an economic structure of an industrial-agricultural province with intensive farming made primary, thereby bringing the province's economic forces into China's middle ranks tending toward the upper ranks.

Xiong Xingqin In 1988 the Jiangsu provincial party committee and provincial government announced that in five to seven years' time they would mobilize the people of the province to fight a total war for agricultural development. In the nineties agricultural development will be raised to a new stage.

Yan Zhenyu Fujian is a grain-deficient province. In the nineties agriculture will be strengthened, and every year part of the financial income—about 10 percent—will be earmarked for use in developing agriculture. At the same time Fujian's superiority in forestry will be developed, and the people will fight bravely for seven years to afforest Fujian.

Gong Sang In the next 10 years, to attain the goal of modernization Zhejiang Province will strengthen the construction of electric power, traffic, communication, and other basic facilities. Up to an appropriate degree the petroleum, chemical, iron and steel, ferrous and nonferrous mining, and other raw materials industries, through technological transformation raise the levels of development of the machinery, light, textile, foodstuffs, and other traditional processing industries, and in a selective manner develop the electronic and other new industries.

Cai Mingde The Jiangsu provincial party committee and provincial government have proposed that in the nineties economic work center on the goals of achieving ahead of time the quadrupling of the gross national product and of attaining in the people's standard of living the level of being comfortably off. Through "science and technology promoting the province" and through hard work, Jiangsu will be built into a province in which the economy is comparatively developed, culture is flourishing, there is coordinated urban-rural development, and society is civilized and prosperous.

Liang Guodian Proceeding from the existing situation in natural resources, the levels of the economic forces and the scientific and technological forces, as well as the possibilities for future development, the Shandong provincial party committee and provincial government have proposed that five years ahead of time, namely 1995, the strategic goal of quadrupling four indices—national gross product, national income, industrial and agricultural gross output value, and society's gross output value—be achieved (taking 1980 as the base year). At the appropriate time the per capita national gross output value will be more than 1,400 yuan. The gross output of grain will be 3.75 billion tons, and the gross output value of agriculture will be 19.3 billion yuan. The gross output value of industry will be 201.7 billion yuan. The proportion of the tertiary industry in the gross national product will be about 27 percent. There will be 1.3 million persons in the scientific and technological ranks, and the overall level of science and technology will be near the level of that of the developed countries in the mid-eighties. People's lives will make the transition from the "enough to eat and wear model" to the "comfortably well-off model," the per capita consumption level will be about 850 yuan, and 40 to 50 percent of the people will advance to the comfortably well-off level. [passage omitted]

Anhui Outlines Five-Year Development Plan

OW 2802082190 Beijing XINHUA in English
1201 GMT 25 Feb 90

[Text] Hefei, February 25 (XINHUA)—Anhui Province will focus on improving its economic results, boosting grain production, education and science and controlling its population growth in the coming five years, a provincial official announced here today.

Speaking at the Fifth Congress of the Anhui Provincial Communist Party Committee, the party secretary Lu Rongqing said the coming five years are a key period for this East China province to expand economy and lay a foundation to quadruple the gross national product (GNP).

The main tasks for the five years to come include maintaining a six percent annual growth of GNP; increasing grain output by 2.5 billion kilograms to 16.75 billion kilograms and raising the industrial and agricultural output value by about 20 billion yuan to 65 billion

yuan, while developing education, science and technology and controlling the population growth.

It is learned that Anhui's domestic product last year totalled 57.5 billion yuan (about 12.2 billion U.S. dollars), up 61 percent over 1984 and an average increase of 10 percent a year; industrial and agricultural output value reached 60.8 billion yuan (about 13 billion U.S. dollars), up 78.9 percent and an average increase of 12.3 percent; grain output amounted to 23.5 billion kilograms, up 2.25 billion kilograms; farmers' net income was 515.7 yuan per person, up 14.7 percent, and total output value of rural enterprises reached 26 billion (about 5.53 billion U.S. dollars), up 460 percent.

FINANCE, BANKING

Types, Causes of Financial Disorder

WUHU2194 Beijing JINRONG SHIBAO in Chinese
12 Dec 89 p.3

[Article by Bao Zhiquang (7637 1807 1730): "Causes of Financial Disorder"]

[Text] Financial disorder severely disrupts the implementation of the nation's macroeconomic monetary policies and financial laws and regulations and damages the reputation of banks. It does a great deal of harm.

Financial disorder in recent years mainly assumes the following forms.

Laxity in the management of bank operations. Many enterprises maintain an account with more than one bank to gain access to cash improperly and avoid credit supervision. In their scramble for customers and deposits, banks have eased up on the requirements of opening accounts and the supervision of the account settlement, cash flow, and credit of enterprises. As a result, measures designed to ensure state regulation and control of enterprise activities and operations through the banks do not work. This is one form of financial disorder.

With no regard for their trustworthiness, some banks wilfully misuse money and taxes belonging to their customers, return checks, and mispend funds to be remitted by joint banks. Consequently, enterprises find it difficult to send or receive remittances and encounter cash flow problems. This is the second form of financial disorder.

An interest rate war has broken out. Some advertisements on interest rates not only exaggerate but are downright deceptive. The interest rate war has driven up the operating costs of banks and wrought havoc with the nation's policy of uniform interest rates. This is yet another form of financial disorder.

Some people have set up financial institutions, pooled funds, and started an insurance business in the name of "safeguarding" and "health insurance," all without

authorization. A number of banks, also acting without authorization, have opened branches to gain an advantage over their competition. They simply acted on their own, with or without seeking permission afterward. In the process, not only have the limited funds of the state been spread too thin, but the integrity of financial laws and regulations and the interests of the masses have also been compromised. This is the fourth form of financial disorder.

In my opinion, the following ten reasons sum up the underlying causes of the current financial disorder:

1. The "chessboard"-like banking system. The People's Bank may be the central bank, but its branch institutions are on the same level as the specialized banks and insurance companies. The fact that these institutions are all on an equal footing renders the central bank fairly powerless and hence lacking in authority when it comes to restraining specialized banks. Under these circumstances, the flouting of orders and prohibitions is anything but an isolated phenomenon.

2. The power of special interests. In recent years specialized banks have introduced internal contracting extensively, including savings contracting, which has been a spectacular success. In doing so, however, their main preoccupation is to increase savings deposits, profits, and volume of business, paying little attention to complying with the nation's macroeconomic financial policies, rules, and regulations. As a result, the grassroots offices of some banks have been driven by their own special interests to attract depositors by raising interest rates without authorization, making loans arbitrarily, and spending taxes illegally.

3. The lack of an evaluation system. Banks at the higher levels often have no criteria with which to evaluate the compliance by offices at the lower levels of financial policies, rules, and regulations promulgated by the government or the central bank. The upshot is that some "able" people with little sense of financial legality have been given high positions.

4. The power of example. A handful of cities and banks are trying out some methods of operation and types of business in pilot projects. Notwithstanding the fact that these are only experiments with uncertain results, they are being duplicated extensively. In the process errors have been made.

5. The partiality for new things. Some people misunderstand the scientific meaning of reform and indiscriminately regard every new form of financial operation that appears as a product of reform. They also have an expansive view of their authority to develop new forms of business.

6. A weakened sense of financial legality. Many comrades in financial work are used to the experience-oriented way of doing things acquired under the traditional product economy and have no sense of abiding by the law. At the same time, many provisions in financial

statutes and regulations are ineffective in dealing with people who violate rules and discipline but stop short of breaking the criminal law.

7. Administrative interference by local governments. After power was delegated and profits were given up, local governments, driven by a strong investment impulse, have increased their direct and indirect interference in financial institutions, forcing them to restrict their operations to designated areas. Meanwhile, they also tolerate the circulation of funds outside the regular channels. Some local authorities even raise short-term loans themselves.

8. "Hesitate to pelt a rat for fear of smashing the dishes beside it." In managing the financial institutions and handling violations of regulations, the central bank is usually more concerned to protect the institutions' reputation and maintain its harmonious relationship with them than to safeguard the dignity and integrity of financial laws and regulations.

9. Reactive and slow management. Because of the lack of advance supervision, the central bank tends to be reactive and lacks toughness and flexibility in managing financial institutions.

10. Imperfections in financial laws and regulations. First, the formulation and promulgation of laws and regulations lags behind the rapid development of finance. Second, sometimes a traditional method of operation, system, or division of labor is discarded but there is nothing to replace it. Third, some rules and practices are not backed up by rigorous logic. They offer imprecise definitions and are not formulated in a timely way.

I think we should fully appreciate the arduous and complex nature of the restoration of financial order and focus on the following as we go about tackling financial disorder at its source:

1. Establish the absolute authority of the central bank in macroeconomic financial management. Specialized banks and other financial institutions should be required to report their credit activities and other operations to the central bank regularly. Also, cadres in charge of financial institutions should report on their work regularly.

2. Improve the contracting mechanisms within specialized banks. Whatever the specific contracting method used, a specialized bank should make the compliance with the government's financial policies, laws, and regulations the most important part of the contract and one of the criteria for evaluation.

3. Protect the independence of the central bank's leadership and management of other financial institutions. We should establish a "one mouth, one pen" system for the exercise of functions and powers by the central bank, beginning with the guiding idea and legislation. The power to make, issue statements about, explain, and

approve financial policies, principles, and regulations should be completely centralized in the hand of the central bank.

4. Financial law-making should be accelerated. Regulations no longer applicable should be abolished explicitly. Laws that are incomplete or imperfect should be amended and expanded. Apart from the banking law soon to be unveiled, we should create interest-balancing mechanisms for financial institutions. Consideration may be given to drawing up "regulations for fair competition among financial institutions," "regulations for the overlapping management of the operations of financial institutions," and "penalties for financial institutions" to be applied nationwide.

5. The dignity of financial laws should be stressed.

Effects of Austerity Monetary Policy Examined

900102198 Beijing JINRONG SHIBAO in Chinese
12 Dec 89 p.3

[Article by Xu Meizheng (6079 5019 1767): "Effects of Belt-Tightening Monetary Policy Analyzed"]

[Text] To improve the economic environment and rectify the economic order, an austerity monetary policy has been in place since the fourth quarter of last year. So far demand has been brought under control, industrial expansion has slowed, and the rate of price increases has been reduced. The effects of retrenchment are all around us. Of the many retrenchment policies, such as those intended to check fixed assets investment, control social institutional purchasing power, and slash government spending, as well as a tight monetary policy, we have to say the monetary policy is the most important. Thus a comprehensive analysis of the retrenchment effects of the monetary policy is essential to a correct assessment of the current economic situation.

The belt-tightening monetary policy introduced last year takes a two-pronged approach, namely tightening credit and raising interest rates on savings deposits.

Let us first examine the tightening of credit. Between January and September this year, credit grew 5.7 percent over the early part of the year, while the gross national product rose five percent (over the same period last year.) The two figures are very close. Moreover, since the GNP is calculated in constant prices, credit between January and September this year was on the low side. Let us further compare the increase in credit this year with its counterparts over the past several years. Between this January and September, credit of all types rose 60.1 billion yuan, between 2 and 5 billion less than the same period in 1986 and 1987. (Borrowing went out of control from January through September in 1988, so that period was not comparable.) Working capital loans increased 10 billion yuan compared to the corresponding period in 1986 and 1987. Factoring in price increases, we can see that credit has been tightened. Still we must relate these

figures to the retrenchment situation in the fourth quarter of last year if we are to analyze the effects of tightening credit.

The central bank began its policy of tightening credit last September. In the four months between September and December, it increased lending by only 61.3 billion yuan, 60 and 40 billion yuan less than the same period in 1986 and 1987, respectively. Because of retrenchment, enterprise deposits dropped 11.3 billion, 15.3 billion, and 8.7 billion yuan in September, October, and November, respectively, for a total decline of 35.3 billion yuan. At year end, enterprise deposits were up only 23.2 billion yuan over the beginning of the year, a drop of 20 billion and 27 billion yuan, respectively, compared to the end of 1986 and 1987 when enterprise deposits were up 50.6 billion and 44.2 billion yuan. Owing to belt-tightening between September and December, therefore, the ability of enterprises to pay also diminished considerably. Moreover, an appropriate amount of belt-tightening was already in effect in the fourth quarter of 1987 when the increase in credit fell 20 billion yuan compared to the same four-month period in 1986. Thus the 40 billion yuan drop in the fourth quarter of 1988 on top of the decline in 1987 represents a drastic decline.

Credit tightening this year was carried out on the basis of what the belt-tightening policy already accomplished last year. The elements of retrenchment in effect in the last quarter last year will necessarily remain this year. Consequently, although the increase in credit between January and September was down just 2 billion and 5 billion yuan from the same period in 1986 and 1987, respectively, enterprise deposits fell each month during the nine-month period, except for May, compared to the beginning of year. In September alone enterprise deposits fell 3.6 billion yuan. In 1986 and 1987 when enterprise deposits declined in one quarter for seasonal reasons, they immediately rebounded, rising 17.1 billion and 26 billion yuan, respectively, in September over the beginning of year. In contrast, enterprise deposits this year were off 20 billion and 30 billion yuan compared to 1986 and 1987, respectively. With drops in deposits of this magnitude, enterprises naturally experienced payment difficulties.

The other prong of the monetary policy is the raising of interest rates on savings deposits. Interest rates were raised substantially on savings deposits, particularly the three-year value-guaranteed deposits. From January through September, urban and rural savings deposits shot up 99.9 billion yuan, including a 40 billion yuan increase in township savings compared to the same period last year. Is the sharp jump in savings deposits the result of a rapid growth of the people's monetary incomes? From January through September cash payments by the banks in the form of wages to individuals rose 19.1 percent over the same period last year, lower than the increase rate of 26 percent last year. If we factor in price increases, the increase rate is actually negative. The monetary incomes of peasants grew 19.3 percent over the same period last year. Thus the income growth

rate is by no means high. The reason behind the substantial increase in deposits is a sharp rise in savings rate. Between January and September this year, the average savings rate of township residents was 30 percent, markedly higher than the 18.5 percent in 1988 and 23.6 percent in 1987. The main reason for the steep rise in savings rate is the increase in interest rates on savings deposits, particularly the three-year value-guaranteed accounts. Certainly the slow-down in price increases this year also had an effect on savings by lowering public inflationary expectations. But it, in turn, is conditional upon holding down consumer demand.

It is interest rates that powerfully checked consumer demand. From January to September this year, retail sales of social commodities rose 12.3 percent over the corresponding period last year. In the same nine months, retail sales of consumer goods rose 12 percent, which was actually negative growth after accounting for price increases. Moreover, the increase rate declined month after month (except for May.) Retail sales of consumer goods this year also fell each month.

We can thus see that raising the interest rates on savings deposits has helped control total demand. However, it has also given rise to new conditions and new problems, namely a soft market and swollen inventories. According to calculations by the department involved, industrial and commercial enterprises today have 50 billion yuan worth of goods in the warehouses more than what is considered normal. In other words, 50 billion yuan are tied up in the form of finished products and are not available for use. This is also one reason why enterprises are having cash flow problems.

The banks' decision this year to slash fixed assets investment loans has also helped limit fixed assets investment. Between January and September, such loans were trimmed by 9.4 billion yuan compared to the same period last year. At the same time, investment in fixed assets owned by the whole people was off by 9.7 billion yuan compared to the same period last year. So investment demand has been curbed to a substantial extent. Similarly, the reduction in investment demand has weakened the market for such inputs as machinery and equipment.

To sum up, an analysis of the belt-tightening effects of the monetary policy must take into account the impact of credit tightening and the effects of interest rates. It must also consider the effects of austerity in the last quarter of last year. The time-frame should be the one-year period from September last year to September this year, not just nine months. In short, a comprehensive analysis of the belt-tightening effects of the monetary policy would help us assess the present economic situation correctly.

INDUSTRY

Supporting Domestic Production of Textile Machinery

900H03344 Beijing JINGJI CANKAO in Chinese
22 Jan 90 p 1

[Article by Zhao Hongwei (6392 1347 0251) and Jiang Wenrui (5637 2429 3843): "Appeal For Support of Domestic Textile Machinery Production"]

[Text] While the air-jet loom produced in Shaanxi by the Xianyang Textile Machinery Plant meets the international standard of advancement, there actually have been no orders placed for it yet this year. This state-operated plant, producer of the only air-jet loom manufactured in China, has called for the state to formulate as quickly as possible stronger policies and measures which will accelerate the process of creating a Chinese textile machinery industry, and protect the people's industry.

The Xianyang Textile Machinery Plant, a state-operated subsidiary of the China Textile Machinery Corporation, with the sanction of the State Planning Commission, signed a contract in 1985 with a Japanese company which provided for the transfer of air-jet loom technology to China through joint production projects. In the more than three years since, the plant has invested 4.129 million yuan in foreign exchange and 27 million RMB yuan, to carry out technological transformation on a major scale. They have also strengthened the management of their enterprise, achieved an annual production capacity of 350 air-jet looms, and developed the ZA202 and ZA203-I models in succession. Eighty percent of the parts used in the ZA203-I model series are produced in China. It is a quality product, and its 250 air-jet looms now being used in domestic cotton mills are turning out cotton products of a very high quality. It has demonstrated superiority in earning foreign exchange through exports. Moreover, the price of a domestically-produced loom is only one-half that of an imported one.

However, because some textile plants have purchased imported products on a massive scale, we now have a situation where no one is interested in a high-quality, domestically-produced air-jet loom. Customs statistics show that in 1988, US\$1 billion in foreign exchange was spent on importing textile machinery, of which a large proportion were shutterless looms such as the air-jet. More than 1,400 of these were products of the Japanese company alone. In 1989, there were applications to import another 242 looms, and estimates are that there will be in excess of 500 imported in 1990. In contrast to this, there were very few orders placed for shutterless looms produced in China. Figures provided by the Xianyang Textile Machinery Plant indicate that contracts were signed for 172 looms in 1989, and although the plant has held two order-placing meetings in 1990, not one contract has been signed to date.

Certain inappropriate policies are the primary reason behind creating this situation. During the period of the

Seventh 5-Year Plan, the Ministry of Textile Industry listed shutterless looms as one of the eight key problems in the Ministry's listing of these. In addition, the state listed five shutterless looms, including the air-jet and water-jet types, along with their peripheral equipment, as key technologies for import and assimilation. Normally, relevant policies would benefit the production and marketing of domestic, cooperative products. However, the reality has been quite the opposite. According to the "Notice On the Use of Collected Commodity Taxes and Value-Added Taxes to Purchase Foreign Exchange," the vigorous document issued by the Ministry of Finance in 1986, those purchasing imported machinery can use the commodity and value added taxes collected on their products (fabrics) to repay their foreign exchange debts. However, it stipulates that this cannot be done in the case of undocumented purchases of domestically-produced, cooperative products. The Wuxi Cotton Weaving Plant imported 24 air-jet looms from Japan last year, but the preferential policies they enjoyed deferred their taxes for three years. As a result, they realized a profit of 2.4 million yuan from this one deal alone. The Ministry of Textile Industry recommends that textile plants initially purchase products cooperatively produced in China, and are not permitted to buy imported, complete machines until domestic production capacity is exceeded; still, every textile plant has started out from the standpoint of its own profits, and has made the opposite choice on this basis. It is known that when every kind and model of Chinese-manufactured machinery is compared with imported machinery, there is an average five percent difference in the efficiency rate; also, the Ministry of Textile Industry lags behind in its allocation of spare parts and instruments, a situation which can quickly become damaging. Experts in the field believe that the problems now being revealed about shutterless looms are a precise reflection of China's falling behind in its overall industrial level and national development. This problem is critical to our needs in developing socialist modernization. We absolutely cannot press forward in the face of this, blindly relying upon imports.

Shutterless looms are the world-wide trend in development of textile machinery. It is also the direction in China. According to the developmental plan, the adoption rate of Chinese shutterless looms should be 15 percent by the year 2000, but their present domestic adoption rate is less than 2 percent. Appropriate government departments should forbid the import of air-jet and water-jet looms until such time as domestic production cannot fulfill the demand; this will permit those weaving enterprises which use domestic equipment to repay their debts with the value-added tax on their products. Imported individual parts for shutterless looms should receive more preferential treatment than imported whole machines. In addition, in order to improve the quality of domestically-produced, shutterless looms as rapidly as possible, there must be support in such areas as funding for research, expenses for attacking key problems and loans for operational funds.

FOREIGN TRADE, INVESTMENT

Article Views Foreign Trade Incentive System

HK1201081790 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 12, 1989 pp 9-11

[Article by Wang Zixian (3769 1311 0341), edited by Shen Ziyu (3088 1807 3342): "On How To Choose a Foreign Trade Incentive System for China"]

[Text] Under the conditions of our country's low level of industrialization, its weak competitive power in exports, and the prevalence of protectionism in world trade, choosing a rational foreign trade incentive system is exceedingly important in promoting the export of our country's manufactured goods and primary products, avoiding the retaliation and antidumping actions of the developed countries, ensuring the effective allocation of resources, and heightening the aggregate effects of the national economy. The direct causes of the current situation of low or negative effects in our country's foreign trade sector, such as low-priced exports and high-priced imports of commodities such as raw materials, also lie in the distortion of the foreign trade incentive system. Therefore, when fixing the middle-term target in the reform of the foreign trade structure, we should note this problem as being important. In formulating the near-term program we should give it due consideration and, on the precondition of noticing the need of coordination, gradually put on stage a number of relevant measures of an incentive system and reform, so as to create good conditions for the development of our country's foreign trade.

1. Fundamental Principles in Choosing a Foreign Trade Incentive System

A foreign trade incentive system involves many factors, and is particularly closely related to the state's protectionist policy for domestic industry, because when other conditions remain unchanged, protection given to a certain industry or trade (protection in customs duties) implies discrimination against that industry's or trade's exports. Hence, we should, on the basis of effecting a close liaison between the domestic protectionist policy and other relevant factors, analyze the whole foreign trade structure and system. The basic principles are as follows:

1. Use caution in levying a tax on exports. Under the current conditions of extremely severe competition in international trade, levying of export taxes on export commodities should be done with caution. Generally speaking, only when a commodity occupies an extremely large share of the international market and holds a somewhat monopolistic position can the levying of an export tax on it yield certain profits. Basically, only when the elasticity of demand for a certain commodity is lower abroad than domestically and the elasticity of supply domestically is relatively small, or when the resources employed to produce this commodity are relatively limited can the levy of an export tax obtain the utmost

export benefits. Silk piece goods and peppermint oil in our country belong to this category of products.

2. Give preferential treatment to the manufacturing industry. Definite preferential treatment should be accorded to the production and export of products of manufacturing industries. This is because: a) Our country lacks a full complement of basic facilities and social public welfare facilities, and the cost of production in the manufacturing industries is relatively high. b) Raising the productivity rate of the manufacturing industries is much faster when compared with agriculture; c) Development of manufacturing industries leads to development of certain relevant industries and trades and increases employment opportunities. But preferential treatment given to exports of products of manufacturing industries should not be too much greater than the treatment accorded the export of primary products.

3. Give equal encouragement to exports and import substitutes, principally to prevent waste caused by the differences in production costs of domestic resources of import substitutes, which economize in foreign exchange, and the production costs of the domestic resources of the exports which earn foreign exchange. The provision of equal encouragement to exports and import substitutes is applicable both to manufactured and primary products, except for exports that have an extremely small demand elasticity abroad and that suffer from import restrictions abroad.

To make it possible for exports and import substitutes to receive equal treatment, two measures may be adopted:

1) Giving equal production subsidies to both, and 2) making the subsidy rate on exports the same as the customs rate on imports. These two measures each have their strong and weak points: the weak point of the former is that it may increase the government's financial outlay, while the weak point of the latter is that it may cause distortion in the consumption structure. Taking into consideration the current financial condition of our country, the measure of export subsidy plus customs duties may possibly be more suitable.

4. Protect newly built industries. Newly established industries have large investment risks and are relatively poor in competitive power. It is thus necessary to give them definite protection, but after a while the degree of protection can be gradually lowered. Hence, we should first prescribe a protection period for newly established industries (such as 5 to 8 years) and a protective rate (tax rate of import customs duties) so as to enable the enterprises to prepare to cope with international competition.

5. Protect industries that produce luxury goods and high-grade consumer goods. Ordinarily, we should not give domestic production of luxury goods and high-grade consumer goods very high protection, otherwise this might encourage the existence of domestic production with a low efficiency rate. For the sake of restricting consumption, it is best that in this category of imported

and domestically produced commodities a domestic goods tax (consumption tax) of the same tax rate be levied. Only when consumers conceive a blind liking for foreign commodities and the cost of imported luxury goods and high-grade consumer goods is higher than the domestic production cost can the collection of the customs duty at a higher rate play an active role. For example, at present, higher customs duties should be levied on imported cigarettes and cosmetics. 6. Minimize the danger of retaliation. With the growing intensity of protectionism in international trade, a large developing country like ours can easily become the target of revenge. To definitely assure the trade interests of our country, it is necessary to minimize this possibility of revenge. For this reason, it is necessary to definitely fix a suitable exchange rate and customs duty, gradually employ indirect subsidies to replace direct export subsidies, and employ more often the customary subsidial measures adopted by developed countries that would not invite revenge, such as export tax refunds, preferential credits and loans for exports, and so forth.

7. Reduce measures on placing quantitative limits. Measures of placing quantitative limits consist of fixing quotas, requiring import licenses, banning imports, and so forth. The active role of these measures is that they can produce quick results under emergency conditions, can effectively restrict imports of luxury goods, and readily determine the effects on international payments. But they also have many passive functions: 1) Because the majority of the products belong to the category of non-standardized products and have different specifications, it is very difficult to compare their external and domestic prices and to assess the protective effects of these measures of fixing quantitative limits. If this should lead to the inappropriate issuance of import licenses, this could adversely affect the national economy. 2) The expenses involved in the issuance of import licenses are higher than the administrative and management expenses in the collection of customs duties. Moreover, under the conditions of the issuance of import licenses, a portion of the differential between external and internal prices is taken away by the import merchants, whereas the collection of customs duties can increase government's receipts. 3) Profits from quotas under the import license system may lead to the phenomenon of "over-crowding" in certain industries and trades and may also attract acts of bribery. Therefore, with the industrial structure becoming more complex daily, we should gradually reduce the measures of fixing quantitative limits and adopt the measure of levying customs duties more often.

8. Adapt the protective level to the scale of the domestic market. Our country's domestic markets are rather large. They can afford the full tapping of the hidden potential, of dimensional economics, a lowering of the production costs, and an improvement in benefits. Hence, we can adopt a relatively higher protective rate (rate of import customs duty) than the average developing country.

II. Choice of an Incentive Program for Foreign Trade

In theoretical analysis, in general, developing countries may adopt one of the following three incentive programs:

1. Provide a differential incentive program: Collect customs duties and granting export subsidies on both manufactured products and primary products, but fix the rate of import customs duty and the rate of export subsidy on manufactured products higher than primary products, such as fixing the former at 40 percent and the latter at 25 percent. As for those products that have a relatively low demand elasticity abroad, a relatively low supply elasticity domestically, or a limited source of supply, such as silk piece goods, peppermint oil, and others, the official exchange rate should apply to exports and no subsidy should be given. This program contains the precondition of highly estimating the exchange price and is equivalent to collecting an export tax on those products with a limited source of supply under the normal exchange rate.

2. Fix the exchange price in a relatively moderate manner: Fix the official exchange rate at a slightly higher level than the 25 percent in the program above; collect an export tax of 20 percent on silk piece goods, peppermint oil, and the other products; apply the official exchange rate to exports and do not grant subsidies to other primary products; allow manufactured products to enjoy a 12 percent import customs duty and export subsidy. In such a case, the domestic price, corresponding incentive, allocation of resources, and effects on the government budget would show the same results as program one above.

3. Give a low estimate of the exchange price: Fix the official exchange rate at a slightly higher level than the 40 percent in program one, which would allow manufactured products to trade according to the official exchange rate, and at the same time levy a 28 percent export tax on silk piece goods, peppermint oil, and other products, while enforcing a 10 percent export tax and import subsidy on other primary products. The economic and financial effects of this program would be the same as the first two programs.

In reality, the foreign trade incentive program currently in force in our country is relatively close to program one, but the possibility of its inviting retaliation and revenge is very great. It is in actual conflict with certain regulations of the General Agreement on Tariff and Trade and deprives our country of a reliable protection of its export benefits. As far as the possibility of inviting retaliation is concerned, program two is better than program one, but program three is better than either of the other two. However, program three demands a rather large scale of depreciation of the basic currency, and its workability is rather poor. Comparatively speaking, program two can be enforced more readily. Hence, program two should be taken as the objective of the reform of our country's foreign trade incentive system. Naturally, our country's

existing foreign trade incentive system is not entirely like program one. It carries certain of the features of programs two and three is related to many other economic and non-economic elements. The task of reforming it is extremely difficult.

III. Reform of our Country's Foreign Trade Incentive System

A foreign trade incentive system can be established and play its role only concurrently with eliminating distortions in domestic market prices. The degree of correcting the distortion in domestic market prices determines the degree of perfection of the foreign trade incentive system and the extent of the role it displays. Hence, the establishment of a foreign trade incentive system cannot be separated from the big background of reform of the whole economic structure. Planning on reform of the foreign trade incentive structure must be based on the extent of progress of economic structural reform, so that the two can be mutually coordinated and mutually facilitated. The problems in this connection cannot be discussed clearly in this short article, which principally discusses the steps and measures that should be adopted in the reform of the foreign trade incentive system under general conditions.

At present, the protective level of imports in our country is far higher than the export subsidies. Particularly in the manufacturing industries, a relatively obvious discrimination exists against exports, and the best example of this is that external sales cannot match up with internal sales. This phenomenon is the result of the aggregate role played by such factors as the high estimation of the exchange price, import customs duties being higher than export subsidies, and currency inflation inside the country. Of these, the high estimation of the exchange price is the nucleus. Under the above-mentioned conditions, the first step in reforming the foreign trade incentive system is enforcement of the partial compensation of the devaluation of the basic currency and improvement of export tax collection; the second step is to readjust import protection measures and export subsidies.

1. Measures of devaluation with partial compensation and improvement of the collection of export taxes. First, the existing highly estimated exchange rate should be readjusted gradually, or even at one stroke, to a comparatively moderate level. The import customs duty should be reduced, and the export subsidy should be lowered by a scale smaller than that of devaluation. As for concretely establishing what form of readjustment of the exchange rate to adopt and how small the reduction of the import customs duty and export subsidy should be in comparison with the scale of devaluation, these should be fixed according to the conditions of the economic reform and of the national economy at the time. Second, we should decrease the overly large area of collection of export taxes and only collect the most preferential export tax on the export of primary and manufactured products (such as silk piece goods, peppermint oil, and others) that have

a relatively small demand elasticity abroad and supply elasticity internally. No more export taxes should then be collected on the other primary products or manufactured goods, thus changing the existing negative-incentive measure applied to the export of many primary and manufactured products, and improving the efficiency rate of resource allocation.

2. Reform of import protection and export subsidies. This reform should be carried out based on an overall assessment and computation of the conditions of the actual export incentive and import protection of various products, and in accordance with the eight principles mentioned above. Import protection reform includes reduction of the tax rate of the import customs tariff, using as much as possible customs duty to replace quantitative limits and reducing the differentials in customs duties between different commodities and particularly between mutually-related commodities. Naturally, we should leave out of consideration here the preferential treatment given to manufacturing and newly-built industries and the enforcement of a relatively higher protection against the import of foreign consumer goods for which consumers have a blind liking. After the exchange rate is in its proper position, import customs tariff should be gradually lowered, but it can be suitably higher by about 10 percent over the level of developing countries in general. Because at present the import customs tariff is generally higher than the actual export subsidy rate (plus the effects of concealed export taxes), realization of the objective of making the rate of the customs duties equal to the subsidy rate will need a large-scale reduction of the tax rate of the customs duties. This cannot be accomplished in a short period of time. Therefore, we can only adopt the method of gradual transition, that is, through formulating a long-term target for customs duties (say 5 to 8 years) and fixing the annual changes in the customs tariff to accomplish the objective step by step. It is necessary to announce the tax rate target and the estimate of annual changes to be made in advance so as to reduce uncertainty and enable enterprises to readjust their production and operational activities on time.

Prior to carrying out export subsidy reforms, we must first estimate and readjust the actual export subsidy rates enjoyed by the various commodities, so that the actual export subsidies on the great majority of commodities become generally alike. Next we should follow the demand of the general customs tariff agreement to gradually change the subsidy structure so as to minimize the possibility of retaliation. Our country's current measures of refunding indirect taxes on export commodities and exempting materials imported for the production of exports from customs duties should be further perfected and strengthened. In addition, we should gradually establish a preferential credit and loan system for exports and grant interest-free or low-interest loans to export commodities which need support. In connection with this, we should gradually reduce direct subsidies so that ultimately indirect measures can replace direct subsidies.

The two aforementioned steps are not strictly separated, out can be flexibly grasped according to the actual conditions: certain measures can be carried out simultaneously, certain others can be carried out alternately, while still others need to be carried out in coordination. It should be explained that if the first step of readjusting the exchange price cannot be realized due to limitations of objective conditions, many of the measures in the second step may still be carried out in part according to the concrete conditions. This will only involve more complex computations and the actual results may be slightly inferior.

Shanghai Foreign Entrepreneurs Face Problems

90CH04584 Shanghai WEN HUI BAO in Chinese
12 Dec 89 pp 1, 3

[Excerpts from an article by Mr. Eoghan McMillan, the boss of Arthur Anderson in Hong Kong and chief consultant to the International Businessmen's Advisory Group to the Mayor of Shanghai]

[Text] **Editor's Note:** In recent years, the investment environment in Shanghai has been greatly improved, both in terms of physical infrastructure as well as systems. In particular, the program of streamlining and rectification and the deepening of reforms have created conditions that will enable further improvement of the investment climate in Shanghai.

However, when measured against the goal of developing an outwardly oriented economy, and the demands of international precedent, the investment climate in Shanghai still leaves much to be desired. Mr. Eoghan McMillan, an advisor from the International Businessmen's Advisory Group to the Mayor of Shanghai, has recently compiled a collection of foreign businessmen's opinions which he has edited into a small report entitled, "Problems Frequently Encountered When Doing Business in Shanghai."

Although the problems and analyses which are included could not possibly constitute a comprehensive discussion, the publication indisputably serves as a mirror that will help us further improve the investment climate in Shanghai.

We now publish excerpts from that report in hopes it will receive notice in relevant quarters, and will spur greater efforts to improve our work. Improving the investment climate in Shanghai is not merely the concern of a few specialized departments; it is a social project which affects every industry and business. For this reason, we hope all sectors of society will become concerned about this issue, and will express opinions, give suggestions, and carry on discussion in order to continually raise consciousness about social and public service.

At the very beginning of his report, entitled, "Problems Frequently Encountered When Doing Business in Shanghai," Mr. Eoghan McMillan stated that "Shanghai is one of the best places in China for investment by foreign enterprises, but foreigners frequently complain about various difficulties they encounter while doing business here.

The standard for deciding which problems would be included in this report is very simple—anything that was mentioned more than once has been included."

This report has classified the various opinions into two main categories:

1. Problems Frequently Encountered During Negotiations To Form Joint Enterprises

Carrying on negotiations to establish this type of business in Shanghai is a lengthy and expensive process. Even though the time required for review and approval of foreign investments was greatly reduced after the Shanghai Foreign Investment Commission, which is under the direct leadership of Mayor Zhu Rongji [2612 3579 1015], was established, it still took an average of two years before a joint venture contract could finally be signed.

The principal causes of these delays can be categorized as follows:

1. Too many people or organs take part in negotiations or in "getting the projects off the ground."

Foreign investors complain that they frequently face large numbers of Chinese negotiators, but these negotiators lack the authority to make policy decisions, and they also represent the interests of their various departments or groups. As a result, the various parties to negotiations find it very difficult to achieve a common objective. Changes in the job assignment or work site of personnel on the Chinese side and other things cause frequent switches of negotiating personnel, which also slows down the negotiating process and delays getting the projects off the ground.

2. Lack of Complete Familiarity With International Methods.

Chinese negotiators and personnel in charge of project review and approval completely misunderstand the international economic environment and market conditions. Many of them are experts in engineering and technological areas, but they lack business experience. The result is that it is very difficult for both parties to exchange information about costs and profits and arrive at a common understanding. In fact, attempts by the foreign party to promote this kind of exchange frequently incur distrust and result in a clear lack of faith and confidence.

3. Fear of Taking Risks.

Some Chinese partners or leaders in joint ventures appear to want everything to be perfect, and therefore flee of risk. This situation shows up even more clearly in Shanghai, because in comparison with the rest of the country, negotiators here occupy higher positions in the Party, or in government departments. It appears that the cause of this situation is the fact that in China, there is no way to gain rational compensation for risk.

4. "Attacks From All Sides" During Negotiations.

Due to suspicion and lack of experience dealing with foreign business affairs, some Chinese negotiators typically maintain contact with many different foreign firms throughout the process of negotiation. The consequence of this practice is that statements of intent to cooperate are signed with many different companies for a single project. This is a blow to foreign firms that look forward confidently to further cooperation once a statement of intent has been signed.

One method that Chinese negotiators should use to get foreign firms to yield in negotiations is to have as many foreign investors as possible compete for a single project. Instead, the Chinese parties do not call for bids, but use lengthy negotiations to achieve this objective. This undeniably delays progress on a project.

5. Unrealistic goals and expectations.

The Chinese party often wants to build huge, extremely modern projects without considering the availability and quality of raw materials, the level of expertise required of technicians, or the capacity of the market for the finished product.

6. Availability and reliability of information.

Because relevant market and cost statistics are not completely reliable or available in a timely manner, it is very difficult to produce a high quality feasibility study with substantial content. This causes companies to overlook some factors which may affect their ability to compete.

This lack of reliable statistics also makes it difficult for government organs to carry out effective oversight and control, brings about duplication in the import of a single type of production line, and leads to the construction of too many hotels and other such projects.

7. Unsound laws and regulations.

Many laws and regulations have more than one possible interpretation. Foreign firms have no way of obtaining restricted documents, yet the enterprises in which they invest must abide by them. This makes the system of laws and regulations, which is not very sound in the first place, even more complex.

8. Consultants and advisors.

Local Chinese consultants generally are biased, and know very little about international business. Foreign consulting agencies, on the other hand, charge too much because they must establish a local representative office before they can operate. They cannot directly hire and train local personnel. For this reason, it is very inefficient and expensive to hire a foreign company or bring people to China to perform many simple consultative tasks.

9. Differences in organizational structures.

Many large Chinese manufacturing companies are referred to as "self-sustaining" factories. They employ thousands, and even tens of thousands of workers, and there is nothing they use in the manufacturing process that they do not produce themselves. This even includes the materials needed to carry out factory maintenance. For this reason, many Chinese manufacturers demand that their entire factory be included in a joint enterprise, or they have no interest in any joint enterprise at all. Foreign manufacturers, on the other hand, usually run specialized factories and only want to set up a joint enterprise with a particular department or branch of the Chinese factory.

10. Number of Chinese personnel and their compensation.

Foreign firms feel that the Chinese party generally asks the joint enterprise to hire more Chinese workers than are actually needed, especially in areas where the waiting-for-work problem is relatively severe. This contradicts their desire to obtain the most advanced and highly automated equipment. Furthermore, it is a concrete demonstration of the lack of understanding of such factors as costs and profits, a problem which was mentioned above.

Foreign firms feel that the Chinese party often demands excessively high wages for the Chinese employees of a joint venture. This is in comparison with the workers in Chinese enterprises. People feel that this negates one factor that attracts foreign investors to China—potentially cheap labor.

11. Composition of the board of directors and decisions concerning major issues.

People feel that the Chinese partner in joint ventures still feel very uneasy about turning management of the enterprise over to the foreign partner.

It is said that in enterprises in which the Chinese partner is a minority shareholder, the Chinese partner generally demands that unanimous consent be required for major decisions regardless of stock ownership proportions. They also usually oppose decision-making processes based on a simple majority vote, or any system in which decisions are made by the general manager, because the general manager is usually appointed by the foreign partner.

12. Marketing and pricing of export commodities.

Chinese partners in joint ventures frequently are very eager to sell the products abroad directly, and to establish an overseas marketing network, while the foreign partner is generally more inclined to serve as sole export marketing agent, because it is cheaper and more efficient to use their pre-existing overseas marketing channels, or because they already have granted sole distributorship to a firm abroad. Foreign firms also complain frequently that because China is always a seller's market, Chinese partners in joint ventures have a complete lack of

marketing experience, and do not understand the idea that a product's quality must be considered when setting its price.

13. Balance of foreign exchange

This is the biggest headache of the great majority of joint ventures involving Chinese and foreigners. Although it is China's huge market that attracts foreign investors, Chinese authorities have always steadfastly demanded that joint ventures export as much of its output as possible. They generally ask the foreign partner to bear the burden for unrealistic export ratios (70 percent of total output is usually demanded) without considering international competition and market conditions.

The foreign firms are also subjected to a lot of pressure to use local raw materials, spare parts, and components with no thought as to whether these things can be obtained locally, and without any consideration of their quality.

14. Technology transfer

It is said that the Chinese party often demands that the foreign party continually effect a transfer of the most advanced technology, but is unwilling to pay a reasonable transfer fee. Some Chinese negotiators tenaciously hold the view that since it is the foreign party which recommends the use of certain production equipment, the transfer of technology, the operation of a joint venture, and the training of local management personnel, the foreign party must therefore take responsibility for the quality of the finished product.

15. Favorable treatment

Depending on the type of investment, the location of the joint venture, the term of the joint venture, and the type of technology used, foreign investors can receive various types of preferential treatment. However, this preferential treatment cannot be written into joint venture contracts. The joint venture can only submit an application after the joint venture has been organized. This cannot provide the foreign investor with any guarantees, and there have been instances in which the feasibility of an entire project has been affected by misunderstandings concerning preferential treatment. This also shows that there is a lack of qualified consulting specialists.

II. Principal Problems in Business Operations.

Many foreign management personnel feel that the biggest headache associated with doing business in China is high costs, including private residences, office space, and wages and benefits for foreign personnel sent to China. Some enterprises encounter serious problems when buying raw materials—especially high quality raw materials. Also, some enterprises have problems in connection with labor and marketing. Although China's outdated communications and transportation systems exacerbate other problems, most foreign business managers in Shanghai feel that the business climate here is

even more challenging. They also state that conditions here are slowly but surely improving. Some foreign businessmen have also noticed that while Shanghai people are very tough at the negotiating table, they are very good business partners once agreement has been reached.

1. High housing costs

The issue of housing expenses for long term foreign employees in China causes dissatisfaction among many joint ventures. Rent for an average apartment (by Western standards) can be as high as 60,000 to 70,000 dollars per year.

It is also difficult to find residences within the city that are suitable for foreigners.

2. Labor

Managers still cannot freely hire, pay, award bonuses to, or fire local personnel.

Newly issued regulations give labor unions in a foreign-investment enterprise (FIE) more authority over routine management issues.

3. Raw material supplies

It is extremely difficult for some joint ventures to purchase raw materials and other items on the local market that are needed during the manufacturing process. In general, it is not difficult for joint ventures which produce very simple export products to get these materials. However, enterprises which require high quality raw materials have a very hard time buying in China the items they need. They also frequently need local and foreign monitoring agencies to carry out inspection by comparing the specifications listed on raw materials.

4. Fiscal conditions/shortage of funds

An effective foreign exchange market is needed. Although the establishment of a foreign exchange swap market has improved the situation in this area, more improvement is still needed.

The current nationwide credit squeeze has had a very adverse impact on Shanghai. Local retailers lack sufficient funds to maintain the inventory needed to engage in normal trade. The fact that accounts receivable are paid off very slowly raises the quantity of operating funds required by joint ventures to several times above normal levels.

Banks are unwilling to increase renminbi loans, and the shortage of funds has forced many joint ventures to scrap new production plans.

5. Product quality

Many joint ventures are very concerned about how to assure product quality under poor conditions. The inability to assure supply of raw materials has made it difficult for many joint ventures to establish internal

quality control procedures, because enterprises must make do with whatever materials they can obtain in a situation where demand exceeds supply. One of the biggest problems which has been mentioned in recent years is the fact that other areas have taken advantage of the extra power that has fallen into their hands as a result of decentralization by ceasing to sell their raw materials to Shanghai factories.

6. Legal system

Foreign companies often say that the current legal system does not provide sufficient legal protection. Foreign companies often feel that it is necessary to rely on a network of "old friends" instead of handling affairs according to the law. Furthermore, laws and regulations are not clearly written. There is no definitive interpretation, which sometimes puts foreign firms at a disadvantage in business activities.

7. Ins and connections

When doing business, "ins" and "connections" are important factors. Even if a foreigner has expertise, he often becomes lost in a frustrating labyrinth to nowhere if he lacks the proper "ins."

8. Control of imports and exports

There are 100 little ways to control imports and exports. They are highly confusing and are frequently changed. It takes much time and effort to apply for import and export permits, and the process breeds corruption.

9. Price controls

Some foreign companies are forced before establishing a joint venture to use the Chinese partner as their agent for exports and domestic marketing. This type of agent, in order to protect local consumers, often artificially sets a very low price instead of faithfully reflecting rising prices for raw materials.

Significance of \$5 Billion Trade Surplus

900H03284 Beijing JINGJI RIBAO in Chinese
24 Jan 90 p 1

[Article by Jiang Bo (1203 3134). "What Is the Significance of the US\$5 Billion Surplus?"]

[Text] A Japanese newspaper reported yesterday that China had a \$5 billion trade surplus in 1989. This number tells us something important: there has been a great increase in China's foreign exchange reserves—an event in the nation's economic life that should make everyone happy.

What is the significance of \$5 billion? It is about five times that of China's total value of imports and exports in 1950, and approximately what China's volume of foreign exports were in 1973. It is about one-eighth more than China's total volume of imports for the years past,

and about one-eighth of the total of China's current foreign debt. How can such a surplus not fill people with joy?

This \$5 billion did not come by easily. Last year the total volume of China's foreign exports was \$43.28 billion, a 6.5 percent increase from the year before. One recalls the first part of 1989, and China's unprecedented foreign trade difficulties—rising domestic prices, especially for a wide range of exported goods, supplies of exports were tight, with many exported goods in particularly short supply, the circulation order was chaotic, with the foreign trade order even more so, many people worried that our foreign trade was falling, our exports falling in a landslide, and grew suspicious of China's ability to repay its foreign debts. The reality was no more optimistic: for just as China's foreign exports were falling by the month, the spring and summer disorders and rebellion erupted in Beijing. Some Western nations imposed "economic sanctions" on China, so foreign exports could be regarded as seriously endangered. That China would amass a \$5 billion surplus in this environment was probably beyond anyone's expectations. It shows that China is capable of adjusting its own economic development and navigating its way through difficulties. It also shows that China is capable of repaying its foreign debts, and that foreign entrepreneurs and economists need by no means be burdened with anxieties. It further demonstrates that China's participation in international economic activities is extensive, and that in facing up to the "economic sanctions" of some foreign nations, China's wide open door to the outside cannot be closed.

A \$5 billion surplus tells people that control of the readjustment is absolutely essential. If not, various kinds of "wars" could break out all over, such as a wool war, a cotton war, a chestnut war, and so on. Various kinds of "portfolio" companies could blaze across the skies, price indicators could rise unceasingly, and a foreign exchange black market could run rampant. One could say that without control of the readjustment, this surplus, which makes people so happy, would not exist.

The most important revelation we learn from this \$5 billion surplus is that the true way to strengthening the nation lies in deepening reform. Today, the international economy is daily being linked into one body, and a country cannot build socialist modernization by closing its door to the outside. Ten years of deepening reforms have made China a major participant in the international economy, so that our volume of foreign exports now constitutes more than 10 percent of the total value of the national economy, climbing from 32nd place to 16th in its ranking among the world's importing and exporting nations. Over 3,500 technical contracts and the import of more than \$20 billion worth of equipment have quickly raised China's social and technological level. More than 20,000 enterprises of the "three kinds of investment" type have been set up. Even more evident are the results: in 1989, imports from enterprises of the "three kinds" earned as much as \$3.59 billion in foreign exchange. Deepening reform has brought with it to

China knowledge, wealth, and exuberant vitality. If we are to progress in raising our technical level in order to raise economic efficiency, if we are to achieve sustained growth in our volume of foreign trade, if we are to maintain that trade surplus which is necessary for repaying our foreign debts, it is essential for all of these that we try harder, more positively, and more reliably in adhering to deepening reform.

While this \$5 billion trade surplus is truly gratifying, still, compared to the surpluses of such developed nations as Japan and West Germany, it is still a small number. And when compared with some developing nations and regions, it still cannot be considered as too much. Moreover, China in 1989 made some appropriate cuts in its imports. A reduction in imports by no means signifies that China will close its open door, and by no means signifies that China is erecting trade barriers. China's door will not close, and the reduction in imports was simply something China was forced to do, with no alternative. Everyone knows that China is a developing nation, in urgent need of importing technically advanced industrial equipment, as well as raw materials and the necessities of life. However, there must be guarantees of more exports before there can be more imports, and there must be repayment of debt responsibilities before there can be more imports. This is a matter of common knowledge, and I believe that all unbiased international economists understand and appreciate this.

At the beginning of the new year, it was full steam ahead. Now, the world economy continues to prosper, and international markets are still dynamic. Very recently, China made a timely adjustment in the exchange rate of the RMB, and moved to revise its methods of running Sino-foreign joint investment enterprises. This will be beneficial to expansion of exports, utilizing foreign investment and developing other economic and technical cooperation. Against this new background, one should say that 1989's \$5 billion surplus is the beginning, and not the end.

Roundup Examines Foreign Investment

OW 2202023690 Beijing XINHUA in English
0111 GMT 20 Feb 90

["Roundup: Use of Foreign Investment Gaining Momentum"—XINHUA headline]

[Text] Beijing, February 20 (XINHUA)—With the development of China's opening to the outside world, use of foreign investment in the country is gaining momentum and showing good prospects.

In Tianjin, a coastal city, agreements on a number of major projects using foreign investment are expected to be signed this year.

They include a large microcomputer enterprise with investment from IBM Corporation of the United States, said Zhang Zhaoruo, Tianjin's vice mayor.

Half of the city's 194 foreign-funded enterprises, which are already operational, were able to balance foreign exchange revenue and expenditure last year.

The vice mayor pledged to offer better service to the foreign-funded enterprises to help foreign investors make profits in the city.

By the end of January this year, Shanghai, China's largest metropolis, had launched 717 foreign-funded enterprises, involving a total of 2.5 billion U.S. dollars of foreign investment.

There are now 109 foreign-funded enterprises in Wuhan in central China's Hubei Province. Ninety percent of them are export-oriented.

The Yantai Economic and Technical Development Zone in east China's Shandong Province has signed 13 contracts for projects using a total of \$3.9 million U.S. dollars in foreign investment.

The development zone has attracted 121 million U.S. dollars in foreign investment from the United States, France, Japan, Hong Kong, and other countries and regions.

Nanjing, capital of east China's Jiangsu Province, approved 35 foreign-funded enterprises last year, a 25 percent increase over the previous year.

The city now has 89 foreign-funded enterprises with a total investment of 608 million U.S. dollars.

Nantong, another city in Jiangsu, last year used 34 million U.S. dollars in foreign investment, a 25 percent growth over 1988.

Last year it approved 21 enterprises using foreign investment.

Northeast China's Liaoning Province used 590 million U.S. dollars in foreign investment last year, a 7.1 percent increase over the previous year.

By the end of last year, the number of foreign-funded enterprises in the province reached 746, and 325 have gone into operation.

Inland provinces also opened wider to foreign investors. Central China's Hunan Province last year used 120 million U.S. dollars in foreign investment, a nine-fold increase over 1988.

Last year the province approved 17 projects involving use of 117 million U.S. dollars in foreign loans.

Building Materials Industry Expands Exports

OW 2102170990 Beijing XINHUA in English
1307 GMT 21 Feb 90

[Text] Beijing, February 21 (XINHUA)—China's building materials industry is taking advantage of the brisk world market to expand exports.

Wang Yanmou, director of the State Bureau of Building Materials Industry, disclosed today that last year China exported 969 million dollars worth of building materials and non-metallic products, a 46.2 percent increase over the previous year.

Of the exports, the proportion of highly processed products increased from the 20 percent of several years ago to 32 percent last year.

Wang said some foreign countries have had a strong demand for building materials in recent years, and China enjoys a large production capacity for cement, glass, and nonmetallic products.

Liaoning, Shandong, and Guangdong Provinces and Guangxi Zhuang Autonomous Region, which have abundant resources and advanced technology, each exported over 50 million dollars worth of building materials last year.

Chinese building materials are now selling well in more than 70 countries and regions including Japan, the United States, and the Soviet Union, according to Wang.

Export volume this year is expected to outstrip one billion U.S. dollars, he said.

The total output value of China's building materials industry reached 54 billion yuan last year, 3.8 percent more than in the previous year. The industry turned out 204 million tons of cement and 83.51 million cases of glass sheets.

Audit To Focus on Foreign-Funded Activities

OW2202183490 Beijing XINHUA in English
1255 GMT 22 Feb 90

[Text] Beijing, February 22 (XINHUA)—China will further tighten auditing of state capital spending and other economic activities in the coming years to help promote the ongoing economic rectification, a senior official said here today.

The scope of auditing will be expanded in the fields of capital construction, investment in agriculture and utilization of foreign funds, Lu Peijian, auditor-general of the State Auditing Administration, said at a national auditing conference.

Auditing organs will concentrate on investigating governmental departments, financial institutions, and major enterprises in the next few years, he said.

According to the auditor-general, the nation's auditing departments checked 243,000 units last year and found 23.98 billion yuan (5.1 billion U.S. dollars) was improperly used.

Meanwhile, auditing organs investigated the country's 16,800 postponed or suspended capital construction projects and halted 468 projects, according to the state's plan of scaling down capital construction. The projects had a total investment of 1.18 billion yuan.

Lu said his administration will strengthen auditing of banking and taxation activities to help the state's macroscopic management of funds and loans.

The administration will also supervise the readjustment of the investment structure and ensure the proper use of state investment in agriculture, he said.

Furthermore, auditing of foreign debt will be improved, Lu said.

In the next two years, the administration will focus on checking the use of credits provided by the World Bank and other international banking organizations in order to help improve the efficiency of using foreign funds.

Auditing of other foreign funds borrowed by central departments and local governments with respect to efficiency of fund management and ability to repay will also be conducted gradually, Lu added.

Campaign To License Export Salespersons Begins

HK0404034290 Beijing CHINA DAILY in English
3 Mar 90 p 2

[By staff reporter Qu Yingpu]

[Text] China has started a campaign to license its export salespersons in an effort to improve the quality of goods and improve performances in carrying out export contracts.

More than 40,000 foreign trade salespersons are expected to be tested today at centres throughout the country.

About 10,000 other employees in foreign trade firms have also volunteered to take the tests, said an official of the Ministry of Foreign Economic Relations and Trade (Mofert).

The tests, sponsored by Mofert, include foreign languages and foreign trade business. Their oral foreign languages and knowledge about commerce will be tested later by provincial foreign economic relations and trade commissions.

Those who pass the tests will be given a certificate, which guarantees their jobs as salespersons. Those who fail will receive training before they sit the test for a second time.

Those who fail at the second attempt will be forbidden to go abroad or the Guangzhou Trade Fair [as published], China's most important export opportunity, for trade talks. Those who fail at the third round of tests will lose their jobs as salespersons.

The three rounds of tests must be finished within two years, the official said.

Starting from this year, new employees cannot work as export salespersons until they get the certificates. Those who do not have such certificates will not be promoted to department chiefs or managers in charge of exports.

The official said the "certificate system" will gradually be applied to staff working in foreign trade firms and other departments including accounting, storage, transportation, packaging and export supplies.

Tianjin Establishes Export Credit Supervision Center

OW0403101190 Beijing XINHUA in English
0847 GMT 3 Mar 90

[Text] Tianjin, March 2 (XINHUA)—A Tianjin export credit supervision center has been established and began to provide service during an export fair this month, according to Zhang Shiyong, director of the Tianjin foreign economic and trade commission.

The center, the first of its kind in China, will supervise the quality of export products, the fulfillment of contracts and foreign trade services.

Zhang also said the center will regularly evaluate the credit of foreign trade enterprises to reward good ones and punish bad ones.

The center will also accept proposals by businessmen on various questions concerning foreign trade activities, including fulfillment of contracts. It will also accept and deal with appeals by foreigners on related questions.

Zhang said the center will make quickly [as received] improve Tianjin's foreign trade on the bases of high-quality products and reliable credit.

Zhejiang To Improve Investment Environment

OW1003075490 Beijing XINHUA in English
0631 GMT 10 Mar 90

[Text] Beijing, March 10 (XINHUA)—Zhejiang Province in east China is to make further efforts to improve its investment environment.

Provincial Governor Shen Zhulun made this remark at a meeting of the provincial People's Congress held March 7.

He said the province has already set up the Ningbo and Wenzhou economic and technological development zones, the Longwan export-goods processing zone in Wenzhou, and coastal open cities and counties including Hangzhou, Jiaxing, Huzhou, Shaoxing and Zhoushan, the "PEOPLE'S DAILY" reported today.

He disclosed that the provincial government has decided to build a new export-oriented industrial zone along the Qiantang River in Hangzhou City, capital of Zhejiang.

When conditions mature, he said, the province will start land leasing to attract more foreign funds.

Zhejiang is also stepping up the construction of Ningbo and Wenzhou Airports, which are scheduled to be open before July this year, the ports of Beilun in Ningbo,

Wenzhou and Hupu, highways between Hangzhou and Ningbo and between Jinhua and Wenzhou, and a bridge across the Qiantang River.

Efforts will be made to improve service work to help foreign funded enterprises solve problems in production and management, he added.

ECONOMIC ZONES

Cement Venture With Japan in Dalian Announced

HA1902015190 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 19 Feb 90 p 2

[By staff reporter Xiao Zhang]

[Text] With an investment of 650 million yuan (\$138 million), the country's first Sino-foreign cement venture is to be built in Northeast China's port city, Dalian.

An official with the State Bureau of Building Materials Industry told BUSINESS WEEKLY that the project is part of three major cement export production complexes planned with overseas investment in coastal areas.

China expects to export 3 million tons of cement in 1995, compared to the 150,000-ton cement export in 1988.

The biggest cement producer in the world, cement output last year was an estimated 210 million tons, according to Liang Wenjin, deputy director of the bureau's Foreign Economic Affairs Department.

But the proportion of export is small compared to the output, he said.

The bureau has drafted a plan to increase cement exports by building more cement plants. It will do this by absorbing more foreign investment to construct them. Three cement complexes are planned, Liang said. Investors for the Dalian complex involves the China Huaneng Investment Company, the Dalian Municipal Government and the Japanese companies of Mitsui and Onoda Cement, Liang said.

The Japanese companies hold 51 percent of the shares. The remaining 49 percent is held by the Chinese investors.

The joint venture has a designed output of 1.4 million tons of cement a year. It begins operations in the second quarter in 1992, Liang said. He said 70 percent of the output will be sold abroad.

The three cement complexes are around the Bohai Bay and along the Yangtze and Zhujiang rivers.

The Bohai complex includes Dalian in Liaoning Province, Qinghuangdao in Hebei Province and the Shandong Peninsula, where annual cement output is expected to reach 8 million tons in 1995.

The Yangtze River complex is in Nanjing, Jiangsu Province, Tongling, Anhui Province and Huangshi, Hubei Province. These plants will produce 8 million tons in 1995 and part of the product will be exported via Shanghai and Ningbo in Zhejiang Province.

And the Zhujiang River complex is comprised of five large cement plants in Guangdong Province and the Guangxi Zhuang Autonomous Region, which will be able to turn out 5 million tons of cement a year by 1995. Part of the cement produced there will be exported to Hong Kong and Macao through the Zhujiang River and the port of Fangcheng in Guangxi, he said.

At the moment, Japan is also negotiating, together with France and Switzerland, to set up another joint venture in Nanjing, Liang said.

The Japanese Government has recently approved 1 billion Japanese yen (about \$7 million) in aid to China.

The aid, under the name of official development assistance (ODA), is controlled by the Foreign Affairs Ministry of Japan and will go to a technical innovation project in Zibo, Shandong Province.

At present, five-sixths of China's annual cement output is made by some 5,000 small cement plants.

The Japanese aid is designed to upgrade the technology of kilns, reduce energy consumption, increase product quality and improve working conditions, Liang said.

In recent years, the Japanese are showing greater interest in co-operating with China on building materials developments.

Guangdong's Shantou Zone Attracts Foreign Investors

*OW0203192190 Beijing XINHUA in English
1237 GMT 28 Feb 90*

[Text] Guangzhou, February 28 (XINHUA)—The Shantou Special Economic Zone in Guangdong Province approved in January 11 foreign-funded projects involving 34.58 million U.S. dollars of investment.

Six of the projects are solely foreign-funded, and foreign investments account for 98 percent of the total investment.

The projects cover the chemical, paper-making, automobile-parts, glass-making and porcelain industries.

An official of the zone's administration said the zone is now attracting a growing number of investors with its improved environment.

In 1989, Shantou spent 520 million yuan on capital construction, with 70 percent of the total going on basic facilities. It completed 320,000 square meters of factory buildings, 10 highways, and a number of water-supply, power and communications facilities.

At the end of last year, the zone sent delegations to Hong Kong, Macao, Singapore and Thailand to brief overseas investors on its investment environment.

This year, the zone lowered fees for land-use rights, rents for factory buildings and other charges, and further simplified the procedures for approving foreign-funded projects.

The zone allows overseas businessmen to buy part or all the property of existing Chinese enterprises.

Hainan Expands Insurance Policies to Foreign Clients

*OW0603085790 Beijing XINHUA in English
0231 GMT 6 Mar 90*

[Text] Beijing, March 6 (XINHUA)—The Insurance Company of Hainan, China's biggest special economic zone, has expanded its insurance policies to cater to foreign customers, the overseas edition of the "PEOPLE'S DAILY" reported today.

The company now offers 14 policies to foreign clients, with coverage including construction projects, shipping and business property, in the past it covered only import and export cargos.

Last year the company earned 1.44 million U.S. dollars from insurance services to foreign clients, a 21 percent increase over the figure for the previous year.

The company plans to offer coverage of export earnings, export credit and product responsibility to foreign-funded businesses in the future.

Last year it launched an agency in Yangpu Port to cater to the needs of foreign investors.

Hainan Governor on Reform, Opening to Outside World

*OW0703191690 Beijing XINHUA in English
1603 GMT 7 Mar 90*

[Text] Haikou, March 7 (XINHUA)—Furthering reform and opening to the outside world is the only way for Hainan Province, China's largest special economic zone, to speed up development and construction, Governor Liu Jianfeng said here today.

Liu said that in the two years since the zone was established, Hainan has achieved clear improvements in infrastructure construction and "hardware" investment conditions.

Initial solutions have been found for problems relating to power and water supply, telephone service and entry to and exit from the province, he said.

In addition, the province has achieved relatively rapid development in industrial and agricultural production. Achievements made in cooperation with both domestic and overseas partners are particularly evident. By the

end of last year, there were 816 foreign-invested enterprises in Hainan with total contractual investment of 537 million U.S. dollars and 278 million U.S. dollars of actual investment.

Last year, Hainan's export volume reached 354 million U.S. dollars, 807 times the figure for 1987.

The province has formed production materials, funds and labor markets and a pool of professionals conducive to developing a commodity economy.

Liu Jianfeng said every step Hainan has made in its development has depended on the reform and open-door policy.

He said that in its construction the special economic zone should seriously adhere to the four cardinal principles on the one hand, and make bold and positive efforts to implement the reform and open-door policy on the other.

In future, the governor said Hainan will further implement related preferential policies granted by the central authorities.

Zhuhai Reports Increase Foreign Investment

OW 0803065990 Beijing XINHUA in English
0255 GMT 8 Mar 90

[Text] Zhuhai, March 8 (XINHUA)—In the first month of this year the Zhuhai Special Economic Zone in Guangdong Province signed contracts worth 26 million U.S. dollars, a 56.6 percent increase over that of the same period of 1989.

The increase in foreign investment is due to the stable situation and China's unchanged policy toward its special economic zones. In January business people from Japan, the Philippines, Taiwan, Hong Kong and Macao arrived in Zhuhai to negotiate with their counterparts on a number of projects.

Some foreign-funded enterprises which have already gone into operation are planning to increase their investments in China.

In January five enterprises with sole foreign investment were approved, compared with only two in January 1989, and most involved investments of over one million U.S. dollars each.

Zhuhai is home to factories involved in the electronics, textile, rubber, pharmaceutical, cosmetics and camera industries. Most of them are export-oriented enterprises.

LABOR

Trade Union Forum Discusses CPC Leadership Circular

OW 1602063890 Beijing XINHUA Domestic Service
in Chinese 1308 GMT 12 Feb 90

[By reporter Xu Kehong (1776 0344 3163)]

[Excerpt] Beijing, 12 Feb (XINHUA)—The All-China Federation of Trade Unions recently invited enterprise staff members and workers, grassroots trade union cadres, and chairmen of trade unions of various industries in the country to attend a forum to discuss their thoughts after studying the "CPC Central Committee's Circular on Strengthening and Improving the Party's Leadership Over the Work of Trade Unions, the Communist Youth League, and Women's Federations."

The forum participants unanimously agreed that the CPC Central Committee's circular incisively summarizes the historical experience of the workers movement and trade union work in China, especially that during the decadelong reform, and stresses, from the high plane of wholeheartedly relying on the working class, the need to attach importance to trade union work. At the same time, the circular gives a comprehensive exposition on strengthening and improving the party's leadership over trade union work, and bringing into better play the role of trade unions. The circular is a programmatic document, guiding the workers' movement and trade unions in China for some time to come.

Worker Fang Jida of the Shoudu Iron and Steel Company and Yang Xiaofeng, chairman of the trade union of Beijing's No. 2 Machine Tool Plant said, "The CPC Central Committee's circular is the first systematic and explicit programmatic document to conform to the reality of trade unions since the founding of the country. We had long hoped that the CPC Central Committee would formulate such a document. In issuing the circular, the CPC Central Committee has expected that the trade unions will better their role. We shall live up to the party Central Committee's expectations." [passage omitted on individual remarks]

The forum participants noted that the CPC Central Committee's circular stresses the utmost importance of invigorating grassroots trade unions. Because staff members and workers live and work at the grassroots, only when trade union work is carried out at the grassroots level will the masses of staff members and workers feel that trade unions really belong to them. Trade unions at all levels should serve the grassroots, and speak for and serve the masses of staff members and workers. The vitality of grassroots trade unions should be an important criterion for evaluating trade union work.

In closing, Zhang Guoxiang, secretary of the Secretariat of the All-China Federation of Trade Unions, spoke. He said, "The CPC Central Committee's circular has been issued to, first and foremost, party committees at all

levels. Therefore, in the course of implementation, trade unions at all levels should assist party committees at the corresponding level to carry out the guidelines of the circular. It is hoped that grassroots trade unions will exert greater efforts to stabilize the feelings and encourage the spirit of the masses of staff members and workers while safeguarding the 'core' status of party committees and the 'central' position of plant directors, thereby creating a new situation of unity between trade union cadres and workers."

POPULATION

Large, Illiterate Population a Problem for Hainan

900103724 Beijing ZHONGGUO RENKOU BAO
[CHINA POPULATION] in Chinese 19 Jan 90 p.1

[Article by Zhan Changzhi (6124 7022 2535). The Special Zone's Population Problem: Hainan's Predicament and the Way Out of It"]

[Text] An advanced modern society, economy, and culture is the strategic development goal of the Hainan Special Economic Zone. Population is the main element in the life of a society, and proper solution to the population problem as well as modernization of the pattern of population reproduction are important indicators and the main limiting conditions in socioeconomic modernization. Hainan Province is currently facing a grim population situation, backward population conditions becoming a major obstacle to the special zone's development. Therefore, the adoption of various effective measures to control population size, to improve population quality, to improve population structure, and to bring about a benign cycle in the society and the economy, as well as in the ecological environment is a key task in the building of the special economic zone.

I.

The experiences of numerous countries and regions in modernization show that population size and quality, structure and distribution are major limiting factors in the socioeconomic development of a country or region in today's information age. The economic take off of post-war Japan and West Germany, the rise of the "four small dragons" in Asia, and the flourishing during the past 10 years of the Jiangsu-Zhejiang economic zone, the Liaodong economic zone, and the Zhu Jiang Delta economic zone in China are all closely related to their having advantageous demographic conditions.

Because it was an isolated island, Hainan developed a rapidly expanding isolated population community.

During the 38 years between 1950 and 1988, Hainan's total population increased 1.5 fold going from 2.54 million to 6.27 million, while the population of the whole country only doubled. After 1985, the speed of Hainan population growth exhibited a marked trend toward further rise. In 1987, the natural rate of increase reached 18.32 per 1,000, four percentage points more

than the rate for the country as a whole. Moreover, this trend toward further rise accelerated with development following the founding of the island as a province. In 1988, the natural rate of increase was estimated at more than 20 per 1,000, and in 1987, the multiple child rate exceeding planned births reached 32 per 1,000, second only to Xinjiang for second place in the country.

More worrisome was the quality and structure of the population. Data from the third population census of 1982 showed a 20 percent illiteracy rate for Hainan's population, 40 percent of the total population having less than a primary school education. Scientific and technical personnel averaged 37 per 10,000, and fewer than 10 students were in college. The above indicators were only about half the national average.

Urbanization of Hainan's population lags behind the average level for the whole country. The population census of 1964 and 1982 showed a city and town population of 12.4 percent and 12.6 percent of the whole population respectively. During this same period, the national average was 16.8 percent and 20.2 percent respectively. In 1987, the ratio of agricultural to nonagricultural population was 80.23 percent to 19.77 percent, and the ratio of city and town population to township and village population was 17 percent to 83 percent. For the country as a whole, however, the ratio of city and town population to township and village population in 1986 was 41.4 percent to 58.6 percent. Clearly, the distribution of Hainan's population remains at an extremely backward level.

Hainan is a region in which minority nationalities live in compact communities. The population of the minority nationality area is more than one-third of total population. Thanks to the relatively liberal planned parenthood policy that has been practiced with minority nationalities for a long time, the speed of population increase in these areas is much higher than in Han nationality areas. In the 18 year period between 1964 and 1982, the annual rate of increase in Han nationality areas was 24 per 1,000; in the minority nationality areas, the rate of increase averaged 37 per 1,000. The trend toward unbalanced speed of population development has continued to intensify during the past several years. This may impel population distribution to develop even more irrationally.

As a result of the mindless population increase, the density of population relative to both the state of the economy and the availability of resources in Hainan today tends to be "crowded." In 1987, per capita national income on Hainan was 140 yuan lower than for the country as a whole, and per capita financial income was less than one-fifth the national average. The per capita cultivated land area was 50 percent lower than for the country as a whole, the per capita forest area was less than one-fourth, and coal reserves were only one-twentieth the area nationally, and per capita grain output was 217 kilograms, only enough to feed two-thirds of the island's population.

II.

Because of the weak economic foundation and the backward demographic conditions, building of the Hainan Special Economic Zone will encounter numerous prominent difficulties.

First, the population burden is excessive. It weakens the economy's self-accumulation capability. Both investment in capital construction and improvement of the people's standard of living will be very greatly impaired. Since 1986, more than 120,000 babies have been added each year. Raising them to become part of the workforce will necessitate spending 1.2 billion yuan. Thus, the payment that every family, society, and the state must share in bringing them to adulthood will be more than 1 billion yuan. In 1987, more than 75 percent of the province's entire national income was used for consumption, and the overly low accumulation rate seriously impaired the speed of Hainan's construction.

Hainan's population burden also shows up in the large population in need of relief. In 1987, needy households in cities and the countryside numbered 136,600. This was 672,200 people, or more than one-tenth of the total population. Another 22,000 were orphans, the aged, the handicapped, and the underaged. The amount of money needed for these two groups of people (from both the state and collectives) totaled more than 10 million yuan. This figure was roughly equivalent to the expenditure for education. Because of the pattern of mutual restriction of "population and the economy," the poorer the population, the higher the birth rate, the population of Hainan Province in need of relief tended to increase year by year. Comparison of 1987 with 1986 showed an approximately 50 and 25 percent rise respectively in the population in need of relief and the expenditure of relief funds. Clearly this trend of development cannot be ignored.

Second, the newly added population, and the aggravated shortage of food will perplex Hainan for a long time to come, and will hurt socioeconomic prosperity and stability. The mindless population increase and the inconsistency of grain production has meant a grain shortfall of more than 400,000 tons in recent years. As population continues to increase, the grain gap becomes increasingly wider. Today, between 600 and 900 million yuan has to be spent annually on purchases of grain from elsewhere, and for grain price differential subsidies within the province. This is a great drain on Hainan's construction strength. A disastrous harvest or a period of economic retrenchment would be sure to set off a series of chain reactions affecting socioeconomic stability.

Third, population quality and its irrational distribution hurt development of the commodity economy and formation of a market economy system. Building of the Hainan Special Economic Zone requires large amounts of administrative and managerial talent, and workers versed in operations, but the actual condition of the population is a long way from meeting objective needs.

Getting the personnel and workers suited for modern enterprises requires large expenditures for training; this is sure to lengthen the investment recovery cycle and impair the healthy development of enterprises.

Development of a modern market economy requires an urbanized population, that is, the "economies of scale" concept, but what is happening in Hainan is a kind of "reverse urbanization" process. The rural birth rate is higher than in cities, and rural residential areas are becoming increasingly spread out, making the dissemination of information and the exchange of materials more difficult. This runs counter to the development of a modern market economy. Unless this situation is reversed, a very great price will certainly have to be paid for future development.

The demographic situation is the most fundamental and the most important condition for undertaking construction. Work will have to be done to transform the irrational demographic conditions in order that Hainan may flourish and modernize. (passages omitted)

III.

Socioeconomic modernization is, first of all, the modernization of people. Since people live in groups in time and space, it means demographic modernization. Demographic modernization and socioeconomic modernization are complementary, mutually limiting, and mutually conditional. Applied to the improvement of the condition of Hainan's population, the following key areas should be chosen for efforts:

1. Adoption of a series of measures for strict control of rural population increase. At the present stage on Hainan, it is still necessary to rely on the impetus provided by an outside force to leapfrog the development-of-productivity stage to begin to change people's procreation habits. All the means formerly found effective have to be further reinforced. The birth rate in backward areas must be lowered to close to the simple replacement level through efforts on the part of government and society as a whole. This is an important way in which to help Hainan become prosperous. The sooner a decision is made, and the more vigorous the action taken, the more dynamic the action will be. In order to increase population control, in April 1989 Hainan Province established the country's first provincial level comprehensive functional unit for population, the Provincial Population Bureau. This bureau will provide organizational support for taking a new path in special zone population control.

2. Adoption of planned immigration to improve the existing population structure. This includes the recruitment from inland China and from abroad of scientific and technical personnel, administrative and managerial talent, workers versed in operations, and other educated members of the population. In addition, Hainan should take advantage of the more than 2 million overseas Chinese of Hainan origin to encourage the continued export abroad of labor forces and to send students

abroad. Right after liberation, Hainan's net immigrant population averaged approximately 30,000 annually. However, conditions on the island used to be harsh; consequently the immigrant population was very unstable. Today, fine conditions should be created to assimilate a high quality population that comes to the island to live and work in peace and contentment, engaging in modernization.

3. The population problem has to be solved at its source; democratic politics and a market economy system must be instituted to bring population reproduction in line with the commodity economy and the laws of value. "Opportunity costs," the "optimization of labor," and the upgrading and updating of the industrial structure should be used to promote an ultimate change in population reproduction from a primitive type to a modern type in order to enable the population, society, and the economy to enter a benign cycle.

National Family Planning Meeting Ends

SK2102052190 Jinan Shandong Provincial Service
in Mandarin 2300 GMT 18 Feb 90

[Text] After a seven-day session, the national meeting of chairmen of the family planning commissions of various provinces, autonomous regions, and municipalities across the country concluded in the city of Taran in Shandong Province on 18 February.

In concluding the meeting, Peng Peiyun, minister of State Family Planning Commission, delivered a summary speech, in which he stated that the meeting had been successful and achieved the desired goal. During the meeting, the participants unified their understanding of how to overcome difficulties and successfully conduct their work in the future.

General Secretary Jiang Zemin and Premier Li Peng sent their letters to the meeting, which have extremely encouraged and spurred on the family planning work. Therefore, we should earnestly implement the spirit of these letters, realistically enhance our leadership over family planning work, and strengthen basic family planning work and work at the grass-roots level so as to truly enable population growth to be effectively controlled.

In his summary speech, Peng Peiyun, minister of State Family Planning Commission, fully acknowledged the experience gained by Shandong Province in family planning work and stated that Shandong Province had earnestly conducted planned management over family planning work and imposed heavy duties on the leading personnel of party and government organs at all levels. In order to appraise the fulfillment of family planning work to solve the problem of false population statistics reports, the province successively conducted sample investigations on a large scale at the county level in 1988 and 1989. After the investigation, the province has fairly appraised their fulfillment of birth control plans and strengthened momentum for family planning work at all levels.

In his speech, Peng Peiyun stated that Shandong Province had strictly enforced present family planning policies, gradually established the new order of managing family planning work in line with the law, prevented the malpractice of marriage, and had fostered the idea of serving grass-roots level units and doing practical deeds for them.

In his speech, Peng Peiyun stated that the Shandong Provincial Party Committee and Provincial People's Government had a lofty understanding of family planning work; firmly grasped the work; and had truly grasped the work and conducted practical management over the work; and unswervingly grasped the work on a long-term basis. Therefore, by making efforts in the past two years, Shandong Province has maintained stable population growth and a small decline during the birth peak and brought about an unprecedentedly good trend in family planning work.

In his speech, Peng Peiyun expressed thanks on behalf of the State Family Planning Commission to the comrades of Shandong Province, who had provided precious experience for family planning work, and urged the province's family planning comrades to learn with an open mind from the advanced experience gained by the fraternal provinces, to vigorously overcome the weak links and the unbalanced phenomena in their work, and to improve their family planning work to a new level.

In his summary speech, Peng Peiyun elaborated on the national population growth situation and the guiding principle of family planning, and on enhancing family planning leadership. He also informed the participants of the work emphasis of the State Family Planning Commission in 1990, including the formulation of national rules and regulations on family planning, the Eighth Five-Year-Plan, and trial regulations on the planned.

Family Planning Meeting Opens in Shandong

OW1602030790 Beijing XINHUA Domestic Service
in Chinese 1301 GMT 12 Feb 90

[By reporter Yu Changhong and Liu Guanquan (0491 7070 2938)]

[Text] Jinan, 12 Feb (XINHUA)—Peng Peiyun, minister of the State Family Planning Commission, delivered a speech at the national meeting of chairmen of family planning commissions, which opened today. She said that, in the first year of the 1990's, we should effectively integrate the work of strictly controlling population growth and striving to raise the quality of population with the tasks of improving the economic environment and rectifying economic order. We should continue to strengthen leadership, adopt effective measures, truly implement the current family planning policy down to the grassroots level, and stress reducing the birthrate in the rural areas.

Based on all relevant data, the birthrate on the mainland of our country in 1989 was 2.083 percent, and the natural population growth rate was 1.433 percent. The annual net increase of population was 13.77 million, bringing the total population to 1.111 billion by the end of 1989. In 1989, compared with 1988, the total number of women of child-bearing age increased by 2.1 percent, the total number of women at their peak child-bearing age increased by 7.2 percent, and the total number of births increased by 1.7 percent. Under the situation in which the total number of women of child-bearing age and the total number of women at their peak child-bearing age all registered a relatively high increase, the birthrate and the natural population growth rate only increased slightly.

The achievements in family planning work are closely related to the fact that party and government leaders at various levels have placed the work in an important position. Principal party and government leaders in many localities have personally handled the work. A number of provinces have included family planning work in their economic and social development plans. It is reported that various localities in our country have implemented the contract target system of taking responsibility for the control of population growth and family planning work in various forms, and have considered success or failure in controlling population and family planning work as the basis for evaluating the administration of governments at various levels, linking the success or failure in controlling population and family planning work to reward and punishment for cadres. At the end of 1989, 21 provinces, autonomous regions, and municipalities in our country had promulgated local laws and regulations governing family planning work. The work has also been strengthened at the grassroots level. Many townships and villages have established family planning service stations or rooms.

The early 1990's will be the peak of a high birthrate period in our country and this will directly make the birthrate higher than that in the late 1980's. The work of population control is still very urgent and arduous. Therefore, touching on the main points of family planning work in the 1990's, Peng Peiyun said that it is imperative to vigorously strengthen family planning work at the grassroots level and improve the contract target system of taking responsibility for the control of population and family planning work. We should extensively and penetratingly conduct education on population control and family planning work among all people in our country, with special emphasis on the rural areas, further place family planning work on the right track according to the law, continue to carry out the work in a comprehensive manner, and jointly do a good job in the work, with better coordination of all departments concerned.

The national meeting of chairmen of family planning commissions is being held in Shandong's Taian City. It is an on-the-spot meeting to exchange experience, as well as a work meeting. During the meeting, the Shandong

Provincial People's Government, the Henan Provincial People's Government, the Shaanxi Provincial People's Government, the Jilin Provincial Family Planning Commission, Anhui's Jinzhai County, Huber's Wingshan County, and Shandong's Taian City will introduce their respective experiences. The participants will also make an on-the-spot investigation into family planning work at the grassroots level in Taian City.

TRANSPORTATION

Strain on Railway Transport Eases in 1989

OW 0202110590 Beijing XINHUA in English
0815 GMT 2 Feb 90

[Text] Beijing, February 2 (XINHUA)—China's railway transport strain was further eased in 1989, a spokesman for the Railways Ministry announced here today.

At a cost of 3.9 billion yuan, the spokesman said, China built and put into operation 300 kilometers of new line, 335 km of double track and 229 km of electrified railway during the past year.

Meanwhile, the spokesman said, the construction and completion of 19 major railway projects have been going smoothly. They include the first and second phases of the Datong-Qinhuangdao heavy-haul electrified railway, the eastern China railway networks, and the Guizhou-Kunming, Sichuan-Guizhou and Lanzhou-Wuhan electrified lines.

139 Trading Ports Opened to Foreigners

OW 0503124690 Beijing XINHUA in English
1217 GMT 5 Mar 90

[Excerpts] Beijing, March 5 (XINHUA)—China opened 13 new trading ports to foreigners along its coast, rivers and borders in 1989, bringing its total of open ports to 139, the Port Administration Office of the State Council announced here today.

The newly opened ports include Harbin Port, Jiamusi Port along the Songhua River in Heilongjiang, Jinzhou Harbour in Liaoning, Lanshan Harbour in Shandong and Meizhou Airport in Guangdong.

Among the 139 open ports, 81 are harbours, 25 are airports, 10 are railway ports and 23 are highway ports. In addition, China has 313 open ports granted by local governments. [passage omitted]

The volume of goods passing through the ports reached 187 million tons in 1989, which is 109.9 percent of the annual plan. Of that amount, 96.28 million tons were imported cargo and 92.42 million tons were exports.

In 1989 15,512 cargo ships berthed in the 23 harbours in the coastal areas, an increase of 190 ships over the previous year.

Harbin Opens Five Domestic Air Routes

SK0903131090 Harbin Heilongjiang Provincial Service
in Mandarin 1000 GMT 8 Mar 90

[Summary] Upon approval of the Civil Aviation Administration of China in April, the provincial Civil Aviation Administration will open five new domestic air routes: Harbin-Chengdu, Harbin-Chongqing, Harbin-Qingdao-Fuzhou, Harbin-Qinhuangdao via Shenyang and Dalian, and Harbin-Qingdao via Shenyang and Qinhuangdao.

The Harbin-Chengdu flight will run every Tuesday and Friday, Harbin-Chongqing every Saturday, Harbin-Qingdao-Fuzhou every Tuesday, and Harbin-Qinhuangdao via Shenyang and Dalian, and Harbin-Qingdao via Shenyang and Qinhuangdao every Friday.

These five routes will offer one-day round-trip service.

Massive Expressway Construction Begins

OW1003084090 Beijing XINHUA in English
0755 GMT 10 Mar 90

[Excerpts] Beijing, March 10 (XINHUA)—China will build 221 kilometers of expressways this year to bring its total length of freeways to 510 km by the end of 1990, the Ministry of Communications announced here today.

Yang Shengfu, director of the engineering department of the ministry, said that in September the Shenyang-Dalian expressway, the longest freeway in China, is due to be completed and put into operation.

The four-lane freeway, which stretches 375 kilometers, will facilitate economic growth in north-eastern China's Liaodong Peninsula. "And more significantly," Yang said, "it heralds a new era of massive expressway construction in China."

Two other freeways—the 20.4-km Shanghai-Songjiang and 16-km Xian-Lintong—will be put into operation by the end of the year.

The building of the 142-km Beijing-Tianjin-Tanggu Freeway, China's first expressway to use foreign loans, is well under way. The Beijing-Tianjin section—of 71 kilometers—is expected to be operational by August this year in time for the 11th Asian Games in Beijing this autumn. [passage omitted]

The minister said China plans to build and continue to build eight freeways totalling 1,000 km in the 1991-1995 period (China's Eighth Five-Year-Plan period).

The funding of the projects, he said, will depend on government loans, foreign investment and money collected by local governments.

Double Tracking of Datong-Baotou Railway Completed

SK1103052690 Hohhot Inner Mongolia Regional
Service in Mandarin 2300 GMT 10 Mar 90

[Excerpt] Double tracking of the 423-kilometer Datong-Baotou Railway, a key construction project of the state, is complete, and the line opened to traffic on 10 March. Its completion will increase the annual transportation capacity to 17.36 million tons, an increase of 116 percent. Meanwhile, it will improve transport on lines leading through Erenhot and directly to Mongolia, the Soviet Union, and East European countries. [passage omitted]

AGRICULTURE

Yunnan Peasant Income Figures Given

90OH0423B Kunming YUNNAN RIBAO in Chinese
22 Jan 90 p 1

[Text] According to a sample survey taken by the Yunnan provincial statistical bureau, the aggregate per capita income of Yunnan peasants in 1989 was 688.11 yuan, a 12.1 percent increase of 74.03 yuan compared to 1988. Taking into account household administration fees, tax payments, state deductions, and fixed assets depreciation, per capita net income was 477.89 yuan, an 11.7 percent increase compared 1988.

The main features of the increase in peasant income in Yunnan in 1989 were as follows. First, because of an increase in agricultural investments, production experienced relatively large growth. The 1989 per capita grain production increase for peasants was 23 kilograms, giving peasants a per capita increase in income of seven yuan. Second, because of the 1989 price rises for agricultural sideline products, peasants' per capita income rose 30.46 yuan as a result. Third, incomes from second and third tier industries have increased greatly. Fourth, per capita income of peasants derived from collective operations increased 24.4 percent compared to 1988. Of this amount, 37.8 percent of the increased income came directly from township and town enterprises. Fifth, there were other increases in net income from nonproduction sources. In 1989, the net income of peasants from nonproduction sources increased 18.5 percent compared to 1988. Sixth, high income households increased greatly, and low income households decreased. The number of poor households with net incomes below 200 yuan in the rural areas of Yunnan dropped from 8.8 percent in 1988 to 7.8 percent in 1989. Households with adequate shelter and food whose incomes were between 200 and 500 yuan dropped from 59 percent in 1988 to 53 percent in 1989. Prosperous households with incomes between 500 and 1,000 yuan increased from 28.7 percent in 1988 to 33.7 percent in 1989. Wealthy households with incomes of more than 1,000 yuan increased from 3.5 percent in 1988 to 5.5 percent in 1989.

Peasant Income Reaches All-Time High in Shanxi

9001103758 Taiyuan SHANXI RIBAO in Chinese

23 Jan 90 p. 1

[Article "Shanxi Province Peasant Income Reaches Seventh 5-Year Plan Goal, One Year Ahead of Schedule"]

[Text] A provincial survey team reports that a random sampling of 2,100 peasant households in 35 counties throughout the province showed that peasant per capita income reached 513.87 yuan in 1989. This was up 75.14 yuan from the 438.73 yuan of 1988 in a 17.1 percent increase for all-time high. The province's Seventh 5-Year Plan goal of reaching 510 yuan by 1990 was thus realized one year ahead of schedule.

The main aspects of the increase in peasant income were as follows: A 20.56 yuan per capita increase from collectively managed farming, 17.65 yuan of the increase deriving directly from township and village enterprises. A 47.65 yuan per peasant household net increase from farming. Most of the income from agricultural production resulted from a rise in procurement prices paid for agricultural by-products, and from increases in outputs of main agricultural by-products such as grain and cotton. The increase in non-agricultural income was attributable to state readjustment of the orientation of investment, notably the accelerated development of energy and chemical industries. This played a positive role in expediting the opening of channels for the peasants to earn income from the building of energy and heavy chemical bases in the province. Despite the generally adverse situation in the development of rural non-agricultural income, per capita non-agricultural peasant earnings in the province increased 47.26 yuan. A per capita income increase of 7.42 yuan from other than production was attributable to national government payments, and gifts from friends and relatives in cities, as well as from money sent or carried by people abroad.

Means of Increasing Agricultural Investment

9001103754 Wuhan HUBEI RIBAO in Chinese

24 Jan 90 p. 2

[Article by He Shaozhi (0149 4801 2535), Director, Hubei Provincial Bank of Agriculture: "Thoughts About the Problem of Increasing Financial Investment in Agriculture"]

[Text] The development of agriculture depends first on policies, second on science and technology, and third on investment, and both policies and science and technology also rely on investment. Increasing investment in agriculture requires more than educating the peasants in self-reliance and arduous pioneering work to foster in them a strong willingness to invest. Funds for rural financial distribution is the greatest requirement. Practice during the past several years shows that the following several problems must be solved if investment is to be increased and returns derived from it.

Need To Establish a System for Protecting Rural Financial Resources To Keep Rural Funds in Rural Villages for Use in Agriculture

The faltering of agriculture is attributable not only to a decline in investment, but even more to a serious insufficiency of financial resources. As a result of the decline in comparative returns from agricultural production during the past several years, as well as the too great dispersal of rural funds, and turmoil in the financial order, rural financial resources have tended to erode in many directions and at a greater speed. First is an intensified competitive erosion. Given the established pattern of flow of rural financial resources toward cities, in recent years urban financial organizations have paraded into the countryside. Incomplete statistics show that urban financial institutions in the province have set up more than 600 new rural network outlet points since 1987, amassing nearly 800 million yuan in rural savings. During the same period, they have issued only 100 million yuan in local industrial and commercial loans, the remaining 80 percent of funds flowing into cities. The savings that rural money share cooperatives have taken in have also flowed into secondary and tertiary industries and to other places, less than 10 percent of them being used for agricultural production. Second is erosion of gains from funds. Funds from government support to agriculture and funds that agricultural units have raised themselves for the development of agriculture amount to approximately 500 million yuan annually. Since high interest can be earned on them, they are mostly deposited in urban financial institutions. Third is increased erosion as a result of policies. In 1988, the central bank drew 478 million yuan in funds out of banks and credit cooperatives by increasing the percentage of savings that banks and credit cooperatives were required to turn over to them, and through the operation of special savings accounts and the issuance of debentures for key construction projects.

The serious erosion of rural funds has worsened an already inadequate investment in agriculture. As a result, various measures for increasing output cannot be implemented to the impairment of the development of agricultural production. This is an even more frightening worry than the issuance of BCU's for the purchase of agricultural by-products. We hope that we can draw the serious attention of all parts of society to this situation, particularly the serious attention of Party and government leaders at all levels. We should pay attention to the protection of rural financial resources in the same way that we pay attention to the protection of rural soil and water resources, and cultivated land resources. First, we should establish a policy for comprehensive protection of rural financial resources. We must halt the indiscriminate and egalitarian transfer of funds, and plug the channels through which rural funds slip away, keeping rural funds in rural villages to build up rural village financial resources. Second is the need to institute a tilt policy toward agriculture. All departments engaged in economic work should readjust the structure of their own unit's financial distribution plans, such as the

structure of monetary credit, the structure of capital construction investment, the structure of financial payments, the structure of foreign exchange and foreign funds distribution, and the structure of tax receipts, all of which should be genuinely tilted in favor of agriculture in accordance with the demands of industrial policy. In particular, most of the discretionary financial resources of provinces, prefectures and counties should be used for the building of agriculture. Third is the need to restructure finance and banking procedures in conjunction with improving the economic environment and restructuring the economic order to bring a halt to the unstructured competition for finances. Fourth, government funds for the support of agriculture, and funds for the development of agriculture that units have raised themselves should be under control of authorized units in accordance with policies to assure their use for agriculture.

Second Is Improved Control to Get At Balances Outstanding

While there is a severe shortage of rural financial resources, at the same time waste of funds is serious. One problem is that the percentage of rural credit funds is abnormally large. Statistics obtained from an inventorying of credit assets throughout the province show that approximately 30 percent of the more than 7 billion yuan of current Bank of Agriculture and credit cooperative loans to township and town enterprises, as well as to agriculture are loans used for other than normal purposes. This includes credit funds tied up in inventory and in bad debts, which account for approximately 20 percent of outstanding credit. Second, a substantial portion of the accumulated funds of the rural collective economy and of village organizations has been borrowed by individuals, or used for other than intended purposes. Thus, the potential for tapping balances outstanding is very great. Inventorying of balances outstanding [panhuo cunliang 4149 3172 1317 6852] can help increase investment in agriculture, help penalize corruption, promote the building of clean government and Party spirit, and improve the social atmosphere. Thus, raising of funds for agricultural development should center around inventorying balances outstanding. Practice during recent years shows extremely remarkable results from collecting loans according to law, and from tallying and collecting the payment of public funds in arrears. Not only should this successful experience be continued, but it is also necessary to look farther afield, paying attention to materials financing for the formation and development of a multi-level re-allocation network for idle equipment and for the financing of materials in order to re-allocate idle equipment and put no longer used and idle materials to use.

Need To Highlight Key Projects and Improve Returns From the Investment of Additional Funds

The emphasis in the investment of additional funds should be on fostering the development of reserve strength in agriculture. New agricultural loans from the Bank of Agriculture and credit cooperatives should focus

on support for the in-breadth and in-depth development of agriculture, for the building of grain, cotton, and oil-bearing crop bases, for the building of economically diversified bases, for the building of small farmland water conservancy projects, and for an expansion of the application to agriculture of applied science and technologies such as new varieties of grain and cotton, and farming techniques using plastic mulch in two ways. In addition, support should be given to the development of a system for providing services to agriculture before, during, and after production. Support should be given to whatever promotes the development of agriculture, to processing industries that add value to farm products, and to the development of old, minority, border region, impoverished, and granary area economies.

Support should be provided for the investment of funds in key projects. Attention must be given to improvement of the investment climate. Two problems currently exist in the agricultural investment climate as follows: One is no entity exists to carry the burden of investment in agricultural reserve strength. In particular, once debts are to be repaid to the banks and credit cooperatives that invest in agricultural reserve strength, the indebtedness cannot be collected. Loans are a one-way street from which returns are derived without repaying the money. Second is the relatively low returns on investment in agriculture. A random sampling show a difference of more than 40 percentage points in the input-output rate for secondary and tertiary industries in the same village. Low returns from investment in agriculture result from lack of consistency in rural policies, particularly price policies. A tendency exists toward a disjunction between agricultural product procurement prices and prices of the means of agricultural production. Consequently, it is necessary both to promote farming on a proper scale in rural villages, and to develop production entities that can carry the load of investment in reserve strength so that all parties will dare to invest and not worry about investing. At the same time, policies have to be made more consistent gradually, and the sharing of returns to the state, enterprises, and peasants readjusted. Concessions should be made to the peasants so that they will be more interested in expanding production, so that all quarters of society will be more interested in increasing investment in agriculture, and so that all quarters will be happy to invest in agriculture.

Breaking Through Agricultural Stagnation

*HK 1602071390 Beijing NONGMIN RIBAO in Chinese
24 Jan 90 p. 3*

[Article by Zhang Gengsheng (1728 2704 3832): "Views on Making a Breakthrough in Agricultural Stagnation"]

[Text] Looking at the Agricultural Situation

Through 10 years of reform, grain production has increased by 200 billion jin; only seven percent of the world's cultivated land has kept 22 percent of the world's population alive. This is an enormous accomplishment acknowledged by the whole world. As a result of the

attention of the central and various local leaderships, the increases in agricultural inputs, and the efforts of the vast masses of peasants, in 1989 there was a relatively large increase in grain production. Gross output was 814.5 billion jin, the highest level in history. There was a slight reduction in the production of cotton, edible oils, and sugar. In recent years, there has been overall development in such industries and trades as forestry, animal husbandry, sideline products, and fisheries. Their aggregate output value has made up 40 percent of the gross output value of agriculture. Despite the fall in per capita grain, development of the feed-materials industry and improvements in feeding techniques have led to a rather large increase in meat production, and per capita meat consumption has increased by about 100 percent. Town and township enterprises have enjoyed rapid and thriving development. These are all important accomplishments in the construction of a socialist rural society with Chinese characteristics. They conform with China's realities and will make important contributions to China's industrialization and agricultural modernization.

However, grain and cotton production is still in a state of stagnation or hesitancy. This is the current outstanding problem in agriculture. Although the increase in grain production is over 20 billion jin, 50 percent of the increase may be attributed to an expanded planting area (over 20 million mu). Realization of the output target of 850 to 900 billion jin originally prescribed in the "Seventh 5-Year Plan" is already extremely difficult, and mounting two more new stages in the next 11 years will be fraught with even greater difficulties. It is anticipated that by the end of this century the population will still be at the peak of increase and, assuming a per capita requirement of 800 jin of grain, there must be a supply of over 1,000 billion jin of grain. Even maintaining the present per capita level of 730 jin, gross output still needs an increase of over 130 billion jin and this is also rather difficult. If extremely effective measures are not adopted in time, we may run the risk of failing to fulfill the whole plan. Naturally we are decidedly not pessimistic. The potential for our country's agricultural development is still rather great. If, through transformation of the 1 billion mu of medium-yield and low-yield farmland, a production increase of 100 jin per mu is attained, then we can reap a total of 100 billion jin. Thus, while we see rather large difficulties ahead, we are still full of confidence.

Why the Continuous Stagnation for Five Years? Discover the Causes and Apply the Corresponding Remedies

Due to the lack of a correct analysis of the country's national conditions and a round of blind optimism, there has been a slackening of control over agriculture. Several years ago there was a large-scale production increase in grain and cotton. It was then erroneously believed that "the grain problem had been solved" and that "there would be sufficient cotton for use even with no cotton-planting in the next three years." Storage facilities were

definitely insufficient. The government was unwilling to spend more money to buy more grain and cotton for storage, and the policy was changed accordingly. The purchase prices were lowered, which increased the peasants' burden and damaged their enthusiasm. In particular, the state made a large-scale reduction in the input into agriculture. Of the state's planned investment in capital construction (including the portion outside the state plan but still under its control), agricultural investment dropped from 11.1 percent in 1979 to 2.9 percent in 1988. Seen from the over 100 billion yuan of fixed assets investment outside the plan, in 1988 the portion in agriculture was only 1.9 percent. On the one hand, the state's input was greatly reduced, which caused a clamp down on agriculture. On the other hand, there was also a clamp down on the peasants, since the changes in policy seriously eroded the peasants' enthusiasm and caused the collectives and the peasants to divert their capital investment to the more lucrative non-agricultural trades and industries. Ours is a country with a population of 1.1 billion and there is a relative shortage of water and soil resources. At no time should we become lax in respect of agriculture.

Grain output volume has been hovering around 800 billion jin. If the weather is good, or if the grain-planting area has been increased by two to three thousand mu, then there will be a production increase. Without the input of new materials and technology, output can hardly go on to a new stage. In the six years from 1979 to 1984 we were able to increase the output by some 200 billion jin. This was because, first, the rectification of the egalitarian practice of "everybody eating from the same big pot" and the implementation of the system of contracted responsibilities on the household basis with remuneration linked to output, which particularly emphasized taking the household as the major operation body, provided the vast masses of peasants with autonomous power in production and greatly enhanced their production enthusiasm. Second, there was an enhancement of the productive forces through 30 years of farmland capital construction, an irrigated area of over 750,000 mu was available; 13 sets of large chemical fertilizer plants were put into production; there was large-scale promotion and planting of good hybrid rice and hybrid maize, and the amount and quantity of mechanical equipment for farming was more than doubled. In the past, because the system of people's communes had chained productive forces, they could not fully display their role, but following rural reform, productive forces were liberated, with the result that agricultural production increased on a large scale. But when the production relations had become suited to the level of the production forces, we failed to shift to increasing material and technological inputs, failed to further enhance the productive forces, and also failed to formulate a medium-term and long-term plan on time for the agricultural development of the whole country. There was no continued development of farmland water conservancy construction. Many water conservancy works were in a state of disrepair, and their benefits and effects

were on the downturn. Water in the rivers became polluted, the environment was damaged, and while the output volume of chemical fertilizer continued to increase, the gap in supply was still very large. There was a lack of phosphorous and a shortage of potassium in the varieties of fertilizers, and there was a particularly sharp reduction in the volume of farm household fertilizer. Soil fertility declined, a serious shortage in funds for scientific and technical expenditures occurred, many of the commendable results in research could not be exploited in a timely fashion, and although there was an increase in horsepower for farm machines, there was an insufficient supply of diesel oil. There were not advances in grain and cotton output because agricultural strength was not clearly increased. Still, grain production in seven or eight provinces has continued to increase, setting a new record. This was due to the continued increase in input, which raised the productive forces to a new level.

There was a serious imbalance in the ratio of development between agriculture and industry. After the third plenary session of the 11th CPC Central Committee, with the implementation of the system of contracted responsibilities on the household basis with remuneration linked to output, agriculture's internal relations were readjusted. On the other hand, the state raised on a large scale the purchase prices of grain and cotton, imported grain at the same time, reduced the purchase by levy of grain and other agricultural products, increased the supply and production of chemical fertilizer, plastic film for farm use, farm machines, and farm medicine, as well as granting subsidies on their prices, and generally enhanced the level of the peasants' income. This in reality was a great readjustment of the relations between the city and the country, and between industry and agriculture, which effectively promoted the development of agricultural production, and looking back, this may also be found to have been an important readjustment in the development strategy for the whole nation. However, we had only in mind emergency relief measures to provide the peasants with an opportunity for rest and rehabilitation, which did not engender a higher understanding of the readjustment of the proportional relationships to form a new development strategy. As a result, after attaining relatively rapid development in grain and cotton production, we once again slanted [policy] toward urban areas and industry. Not only did we change the policy and take back from the peasants the good things they had already obtained, but we also began the large scale and rapid construction of industry. Thus, the speed of growth in the output value of industry and agriculture changed from 1.25:1 in the first six years to 4.56:1 in the next four years. A new and a more serious imbalance thus came into existence. The ratio of income of urban and rural people shifted from 1.86:1 in 1984 to 2.2:1 in 1988. This aggravated proportionate relations between industry and agriculture and between urban and rural areas which originally had eased off. The scissors' differential between industrial and agricultural products was further enlarged, the peasants' burden was

increased, and agriculture was rendered powerless to undertake expanded reproduction.

How To Break the Stagnation and Go Up to the Next Stage

The Fifth Plenary Session decided clearly on agriculture's important position and on measures of development. The purpose of making a new agricultural breakthrough in the not too distant future is to quickly end this situation of stagnation. Grain output is to reach 850 to 900 billion jin, and cotton 100 million dan—this is the call sounded to the nation's people and is the primary task in our country's economic development. In order to realize this glorious task and augment the stamina so as to lay the foundation for further development, we propose the following:

The first important thing is to set up a strategy for coordinated development of industry and agriculture. With China having now established an independent and relatively complete industrial and national economic structure, conditions are available for implementing a mechanism of self-accumulation in agriculture. "Take from agriculture, and use it on agriculture," and "Use agriculture to maintain and support agriculture." With regard to industrial and agricultural products, basically implement the principle of exchange at equal value. Peasants are commodity producers who are solely responsible for their own profits and losses. They sternly refuse to undertake production that is a losing proposition. Purchasing agricultural products such as grain and cotton at low prices for a prolonged period will only aggravate the contradictions between the state and peasants. We should implement rational proportionate relations between industry and agriculture and steadily enforce the growth ratio of 2:1. The state's investment in and loans to capital construction in agriculture should gradually reach 10 percent of its total investments in capital construction, and investment in industries producing articles for agricultural use should gradually reach five percent. Provinces, municipalities, districts, and counties should give an important place to agriculture in their capital construction work. Through an improved and perfect system of contracted responsibilities on the household basis with remuneration linked to output, rural areas should gradually push the system of compensatory contracting and institute a system of labor accumulation and investment for the collectives and peasant households.

We should enhance agriculture's comprehensive productive forces. This includes strengthening the basic agricultural facilities, developing industries that produce articles for agricultural use, raising the level of scientific research and technology, as well as developing the circulation, processing, and servicing structure. Furthermore, we should improve production conditions in agriculture; strengthen the rear force and stamina in development; open up farmland water conservancy construction; speedily repair, restore, and provide needed parts for existing projects; protect and improve the ecological

environment; build in a planned manner a number of major projects to increase irrigated areas; adopt truly effective measures to arouse the masses to transform medium-yield and low-yield farmland; and fertilize the soil and enhance soil fertility. In all respects we should create the necessary conditions for improving the farming system, expand double planting acreage, and generally enhance production volume.

Make the development of science and technology the key measure in breaking through agricultural stagnation. Science and technology play an increasingly decisive role in the development of the productive forces in agriculture. In order that science and technology can be of service in currently increasing agricultural production, they should take as their major tasks research work and extending the use of good seeds and varieties in such sectors as grain, cotton, animal husbandry, fisheries, and so forth, in combination with pushing various kinds of high-yield methods and advanced feeding and rearing techniques.

Continue deepening reform. Keep household contracting stabilized, improve and perfect double-deck operations, and combine the peasants' enthusiasm for household operation with the superior nature of collective operation. On the circulation side, on the firm insistence on fulfillment of the principle of accomplishing the purchasing tasks of grain and edible oils and the unified management and handling of cotton, enliven the market circulation, gradually raise fixed purchase prices, reduce the peasants' burdens, stir up the production enthusiasm of the peasants, and in no case enlarge special operations or restore unified levying and purchasing at will.

There must be a new breakthrough in agriculture. Make both unitary production and gross production ascend to the next stages, which is also the procedure of gradually implementing agricultural modernization. It is necessary to continue transferring the rural labor force and changing the state of a rural force which is over-concentrated in limited cultivated land. In rural areas throughout the country, there are now 400 million labor force units, with each labor unit tilling or farming four to five mu of farmland. Apart from approximately 90 million people turning to secondary and tertiary industries, rural areas still have a surplus labor force of several tens of millions of people, and they should be employed to open up the forestry, animal husbandry, and fisheries industries and used in intensive and meticulous farming. Therefore, in the next 10 years we must shift the great portion of the newly increased labor force to secondary and tertiary industries in town and township enterprises, and the advance into the realm of agriculture of an opening up nature should be continued.

In order to ensure sustained, stable, and coordinated development of agriculture, party and government departments at various levels must all strengthen investigation and research, formulate regulations for the medium-term and long-term development of agriculture, and untiringly organize them for implementation. The

National People's Congress Standing Committee and people's congress at various levels should strengthen their supervision of agricultural production and provide it with legislative protection.

Ningxia Livestock Production

40060036B Yinchuan NINGXIA RIBAO in Chinese
5 Feb 90 p 1

[Summary] At the end of 1989, the number of hogs in stock in Ningxia totaled 610,000, a 5.5 percent increase over 1988; meat and egg output totaled 55,000 and 18,000 tons, increases of 5.6 percent and 2.4 percent respectively. In 1989 800,000 sheep were removed from stock, a 16.38 percent increase over 1988.

Yunnan Vegetable Transfers

40060035d Kunming YUNNAN RIBAO in Chinese
9 Feb 90 p 1

[Summary] By the end of January, major vegetable-producing areas in Yunnan Province had shipped 29,180,000 kilograms of produce to northern provinces and regions, a 15 percent increase over the same period in 1989.

Yunnan Livestock Production

40060036A Kunming YUNNAN RIBAO in Chinese
12 Feb 90 p 1

[Summary] In 1989 Yunnan Province removed 8,209,100 hogs from stock, a 59.5 percent increase over 1978; and the number of hogs in stock totaled 19,978,300, an increase of 7 million hogs over 1978. At the end of 1989, output of large animals and sheep totaled 9,239,400 and 7,248,200, increases of 40.8 percent and 2.4 percent respectively over 1978.

Agricultural Construction Actively Under Way

OW 2402051890 Beijing XINHUA Domestic Service
in Chinese 0518 GMT 13 Feb 90

[By reporters Wang Yanbin (3769 6056 1755) and Pu Liye (5543 4539 2814)]

[Excerpts] Beijing, 13 Feb (XINHUA)—Construction projects aimed at boosting agricultural output have been rapidly launched in various parts of China in recent years. [passage omitted]

Over a three-year period beginning in 1988, Shanxi Province has been carrying out several agricultural construction projects—such as the projects dubbed "111" and "666"—to demonstrate ways to achieve high output and expertise in crop cultivation. In 1989, the projects were carried out on 10 million mu of cropland and produced more than six billion jin of cereal crops. This means that the province produced one-third of its total grain yield on only one-fifth of its grain acreage. [passage omitted]

It has been learned that more agricultural construction projects sponsored by central and local authorities have been launched in 1990 in order to ensure a bumper agricultural harvest in the first year of the 1990's. In addition to its "Bumper Harvest Program," which is still being carried out in various parts of the country, the Ministry of Agriculture is also sponsoring the following agricultural construction projects in various parts of the country: 1) A program to increase an aggregate 110 billion jin of wheat on 100 million mu of cropland over a three-year period on the basis of the 1989 plan to increase corn yield on 100 million mu of cropland in the Huang-Huai-Hai areas. 2) A program for increasing an aggregate 10 billion jin of rice on 100 million mu of rice cropland in southern China over a three-year period. 3) A plan, to be accomplished in three years, to produce 100 jin of cotton and 400 jin of wheat on each of the 10 million mu of cropland in the Huang-Huai-Hai areas. 4) A plan to produce 150 jin of cotton on each of the 10 million mu of cotton fields in major cotton producing areas.

The ministry is also sponsoring the following three agricultural development projects: 1) developing 10 million mu of grain fields with each mu capable of producing one metric ton of grain; 2) developing 10 million mu of field for ratooning rice; and 3) developing 10 million mu of cropland to produce enough to meet the basic food and clothing requirements of the local people. Hebei Province, which produced 41.3 billion jin of grain last year, has drawn up a plan under which the province's grain output will reach 45 billion jin, its cotton output will reach 1.5 billion jin, and the output of its oil-bearing crops will reach 1.7 billion jin in 1992. [passage omitted]

While drawing up their agricultural projects, all localities must keep in mind their actual situation and make sure that the plans are practical. Aiming at making itself more self-sufficient in grain supply, Fujian, a grain importer, has this year begun a six-year plan to improve its medium and low yield cropland; reclaim wasteland; develop cropland that can produce one metric ton of grain per mu; develop cropland for ratooning rice and grain production in winter; and develop dryland for grain production and land for seed strain cultivation. These seven main projects are also supported by projects relevant to fertilizer production, irrigation, mechanical farming, pest control, and various other technical services. This year, Tianjin has plans to develop 100,000 mu of cropland, with each mu capable of producing one metric ton of grain. This large city hopes to find a technical mode that can substantially increase grain output in the suburbs. [passage omitted]

While carrying out its short-term plans, Jilin Province has also been carrying out long-term plans under which it will, during 1990, accomplish five large irrigation and agricultural development projects; increase its grain, oil-bearing and sugar crops; and increase its grain output by 10 billion jin. Hunan Province has also set a goal for developing cropland, with each mu capable of producing one metric ton of grain. The province expects that, by the

year 2000, each of its 20 million mu of double-cropping rice cropland will produce more than one metric ton of rice. This means that its yearly grain output will reach 40 billion jin from this project alone.

Hebei Cotton Area

40060035E Shijiazhuang HEBEI RIBAO in Chinese
14 Feb 89 p 1

[Summary] In 1990 Hebei plans to sow 13,460,000 mu to cotton.

Officials Confident of Good Fertilizer Supply

OW1602123390 Beijing XINHUA in English
0711 GMT 16 Feb 90

[Text] Beijing, February 16 (XINHUA)—Chinese farmers will have a plentiful supply of fertilizer and pesticide this year if the country's chemical workers keep to the production targets they have been set, "CHINA DAILY" reported today.

Top officials in the chemical industry are confident they can do so.

Chemical production is planned this year to be 17.72 million tons of fertilizer and 210,000 tons of pesticide—both figures topping those achieved last year.

The officials are also confident that their industry will be able to generate the extra 600,000 tons of chemical fertilizer requested by Premier Li Peng at this year's national conference on the chemical industry.

Liu Zhengdong, an official with the production management department of the Chemical Industry Ministry, said, "now that all trades have declared their determination to give agriculture a hand, we reckon we will do our best to share the responsibility."

Plentiful supplies of chemical fertilizer and pesticide are vital if China is to produce 412 million tons of grain this year as planned.

Agricultural experts say more than 20 million tons of fertilizer will be needed to accomplish this target.

The country has been spending 100 million U.S. dollars a year on importing fertilizer and pesticide to beat the shortage at home.

Scientists Report Need for Increased Barley Production

OW1702103190 Beijing XINHUA in English
0804 GMT 17 Feb 90

[text] Beijing, February 17 (XINHUA)—Scientists held that China needs to grow more barley to meet demand from the rising beer and forage industries, according to "FARMERS' DAILY"

In the past, Lin Yufu said in the Beijing-based newspaper, barley was grown by the nation mainly as food

Due to the wide introduction of other cereal crops and the improvement in people's livelihoods, barley cultivation has shrunk in recent decades as it is not as popular as food grain as wheat and rice.

Since the 1980s barley cultivation has picked up again, stimulated by the expansion of the beer and fodder industries, though it still falls short of demand. The country has to import the cereal every year to keep a balance. Now the sown area of barley comes forth only after wheat, rice and maize.

Countries that have advanced agriculture usually have 35 to 40 percent of their barley output used to produce beer and the rest for forage ingredients, Lin said. China will have to follow suit as people are consuming more and more beer, meat, milk and eggs.

Take east China's Shandong Province as an example. The province is known throughout the world for its high-quality Tsingtao beer. In 1988, the province produced 690,000 tons of beer and its export made up 80 percent of the country's beer sold abroad. This year, output is expected to reach one million tons, consuming more than 140,000 tons of barley.

The province is now using 10 million tons of grain as forage. The amount will increase in line with the increasing consumption of animal protein.

These mounting demands will need at least 600,000 ha of land devoted to barley if the country is to save the amount of foreign exchange spent on importing the crop, Lin said.

Farm Machinery Exports Quadruple Since 1985

OB 2002055890 Beijing XINHUA in English
0911 GMT 19 Feb 90

[Text] Beijing, February 19 (XINHUA)—China's farm machinery exports have jumped by an annual rate of 50 percent since 1986 with total exports amounting to 110 million U.S. dollars-worth in 1989.

Liu Peisheng, section manager of the China Farm Machinery Import and Export Corporation, told XINHUA today that the corporation exported only 25 million U.S. dollars-worth of products in 1985. However, businessmen began to show greater interest in China's tractors, combine harvesters, internal combustion engines, grinders and other machinery in more than 200 categories.

In the past two years, Liu said, China has improved its small tractors, diesel engines and oil pumps, with some products matching the advanced world level.

The corporation has formed an export network, exporting its products to 70 countries and regions.

The corporation formed a joint undertaking late last year with China's major farm machinery manufacturers in order to push exports and explore new markets in Africa and Latin America.

Henan To Invest More in Cotton Production

OB 2202040790 Beijing XINHUA in English
0854 GMT 20 Feb 90

[Text] Zhengzhou, February 20 (XINHUA)—Henan Province, a leading cotton producer in China, will put more money and materials into cotton this year to end five years of depressed output.

The area under cotton cultivation is expected to total 840,000 hectares.

Starting from this year, the provincial authorities will provide a subsidy of 6.4 yuan for every 50 kilograms of cotton bought. Every hectare of cotton land will have an assured supply of 7.5 kilograms of high efficiency pesticide.

In addition, 1.5 kilograms of diesel oil will be added to the previous ration for every 50 kilograms of ginned cotton.

Also from this year, five million yuan a year will be allocated to develop high yield cotton varieties, promote technical contracting and reward outstanding cotton growers.

Free Market Beef, Mutton Prices by City

HK 2102155590 Beijing CEI Database in English
21 Feb 90

[Text] Beijing (CEI)—Following is a list of free market prices of major farm and side-line products in China's major cities on Jan. 25, 1990, released by the Ministry of Agriculture:

City	Beef	Mutton
Beijing		4.80
Tianjin	7.20	9.00
Taiyuan		6.80
Hohhot		
Shenyang	9.00	9.00
Dalian		
Harbin	7.00	7.60
Shanghai	9.50	
Nanjing	8.40	
Hangzhou	8.00	7.80
Ningbo	10.00	
Hefei	7.20	5.60
Fuzhou		
Nanchang	8.40	
Jinan		
Zhengzhou	6.00	6.00
Wuhan		
Changsha	8.00	6.40

City	Beef	Mutton
Guangzhou	12.00	12.00
Nanning	7.50	
Chengdu	6.00	6.00
Chongqing	8.00	
Xian	7.00	9.00
Xining	7.20	6.00
Yinchuan	8.00	7.00
Averaged	8.02	7.68
Growth rate (percentage)	8.10	9.60

(Unit: yuan/kg)

Tibet Increases Farm Capital Construction

OW2102231590 Beijing XINHUA in English
1043 GMT 21 Feb 90

[Text] Lhasa, February 21 (XINHUA)—The Tibet Autonomous Region is spending 12.27 million yuan (about 2.6 million U.S. dollars) on farm capital construction work this year.

More than 60,000 farmers have turned out to build and repair irrigation facilities in their efforts to produce another good grain harvest. The region reaped 549 million kilograms of grain last year, a record quantity.

Tibet has 130,000 hectares of arid and semi-arid farmland. A local official estimates that about 9,300 hectares of farmland will be improved, 2,600 hectares irrigated and 2,933 hectares covered with grass when the capital construction work is completed.

Hainan Develops Aquatic Production Trade

HK2702031590 Haikou Hainan Provincial Service
in Mandarin 2300 GMT 21 Feb 90

[Excerpt] Various localities along the coast of Hainan bring the strong points of the coast into full play, and unswervingly develop aquatic production trade. According to statistics from the department concerned, last year 13,700 mu in Haikou City, Sanya City, and the 10 counties of Qiongzhan, Wenchang, Qionghai, Wanning, Ledong, Dongfang, Changjiang, Danxian, Lingao, and Chengmai were under aquatic production, with an output of 899 tons; the areas under breeding, as well as the output, accounted for 24.6 percent and 24.5 percent respectively of the province's totals. [passage omitted]

Trend of Shrinking Farmland Under Control

OW0503005390 Beijing XINHUA Domestic Service
in Chinese 0539 GMT 22 Feb 90

[By reporter Lu Yongjian (7773 3057 1696) and correspondent Jia Yuhui (6328 3022 1979)]

[Text] Beijing, 22 Feb (XINHUA)—The trend of reduction in farmland acreage, which had continued for years,

was put under control in 1989. According to information from the State Statistics Bureau, last year total farmland acreage was only 1.44 million mu less than in 1988, whereas the preceding four years saw an average reduction of eight million mu annually.

Initial statistical data from various provinces, autonomous regions, and municipalities gathered by the State Statistics Bureau show that at the end of 1989 total farmland acreage was 1.434 billion mu, a drop of 0.1 percent from 1988. Public figures concerned said that, from a macro point of view, there were numerous reasons why it was possible to further control the trend of drastic reduction in farmland acreage. These included instituting a legal system for land management work, introducing a planned target management system for farmland used for non-agricultural purposes, and reducing capital construction. As far as the situation in various localities is concerned, the once-reduced farmland acreage in some remote border provinces was enlarged. Last year farmland in Inner Mongolia, Yunnan, Guangxi, Qinghai, and Hainan increased by 1.24 million mu. In Yunnan, Guangxi, and Qinghai, farmland acreage continued to increase for three successive years. Among the localities where farmland acreage decreased, Shandong, Guizhou, and Jilin registered a decrease of more than 0.4 percent. The actual reduction in the farmland acreage in these three provinces was 430,000, 330,000, and 240,000 mu respectively, or a total of one million mu.

Though the trend of drastic shrinkage of farmland was by and large put under control, farmland acreage still decreased, while there was a relatively large population increase. According to the statistics, last year the population increased by 15.77 million people. This brought the average farmland acreage per capita down from a level of 1.38 mu in 1985 to 1.29 mu, far below the world average. Some economists have pointed out that the increasingly acute problem of too many people and too little farmland is already reality for some people today. Farmland is the scarcest and most valuable natural resource in China. We must understand our historical responsibility to protect our farmland in order to ensure the survival and prosperity of the Chinese nation and to preserve the "rice bowl" for our posterity. While carrying out family planning to control excessively fast population growth, we must make a real effort to protect our farmland and strictly control the use of farmland for non-agricultural purposes. It is imperative to use farmland economically, resolutely act according to the law to ban all acts of infringement on and misuse of farmland, make every effort to stabilize the present farmland, and strive hard to increase the rate of its utilization.

Jiangxi To Increase Agricultural Funds 40 Percent

OW2302123290 Beijing XINHUA in English
0912 GMT 23 Feb 90

[Text] Nanchang, February 23 (XINHUA)—Jiangxi, one of the grain producing provinces in east China, is to spend 1.66 billion yuan on agriculture this year, 40 percent more than last year.

A provincial official said Jiangxi plans to increase grain output by 250 million kilograms to 15.75 billion kilograms and boost cash crops, including cotton, sugarcane and oil-bearing crops.

To ensure that the plan goes smoothly, the government has called on localities to raise funds to improve irrigation, support rural industry, build production centers and disseminate agrotechniques to raise all-round farming productivity.

The province will also spread improved seeds and compound fertilizer as well as transform lower-yield farmland to raise output.

Tea Exports Reach Record High

OW2402072690 Beijing XINHUA in English
1257 GMT 23 Feb 90

[Text] Beijing, February 23 (XINHUA)—China's tea exports in 1989 hit a record 204,500 tons, according to the latest statistics from the Customs Bureau.

China ranked second in tea exports behind India in 1989. Since 1917, China had ranked third behind India and Sri Lanka.

Chinese tea exports, mainly black, green and specially processed tea, go to more than 80 countries and regions.

Foreign Funding Improves Fish Farming

HK2302021390 Beijing CHINA DAILY in English
23 Feb 90 p 2

[By staff reporter Wu Yunhe]

[Text] The sum of \$190 million may not be enough to develop either light or heavy industry, but it has been quite enough to develop a string of fish farming projects in 19 Chinese provinces and cities.

The Ministry of Agriculture reported that the money was acquired by its Aquatic Bureau as credits, loans and aid from foreign governments and financial institutions between 1983 and 1989.

The Ministry said that about \$112 million of the total amount came from foreign governments, and \$78 million came in the form of long-term loans from international financial institutions such as the World Bank.

The money was used to establish 25,661 hectares of fish farming ponds on waterlogged lowland and saline-alkali land, upgrade more than 6,700 hectares of existing fish farms and update fish processing equipment.

A Ministry official said these foreign-aided fish farming projects had greatly benefited the country's fishing industry.

The State Statistical Bureau reported that China's aquatic output reached 11.48 million tons last year, 8.2 percent more than that of the previous year.

Of the total, yield of fresh water fish increased by 7.4 percent, while that of seafood climbed 9.3 percent.

China exported 293,876 tons of aquatic products last year, showing an increase of 11.2 percent from 1988.

The agricultural official, who declined to be identified, said China hoped to attract more foreign funding for the further development of fish farming.

He said China had another 2.68 million hectares of waterlogged lowland and saline-alkali land awaiting development into fishing ponds.

The development of such wasteland had proven encouraging in Tianjin, where the municipal government successfully developed about 4,355 hectares for the construction of 2,730 agricultural projects by using economic assistance from the United Nations World Food Programme.

Now, Tianjin's 1,340 hectares of fish farming ponds produced more than 4,000 tons of fish a year for both the domestic and world markets.

Efforts Made To Reap Better Harvest

OW2802052290 Beijing XINHUA in English
1321 GMT 24 Feb 90

["Roundup: Working for a Better Harvest"—XINHUA headline]

[Text] Beijing, February 24 (XINHUA)—China's central government departments are raising funds, providing better services and preparing materials for agriculture while spring ploughing is in full swing across the country.

The Meteorological Bureau is busy providing forecasts on the major weather conditions, especially chills which might affect spring ploughing. A spokesman from the Central Meteorological Station said the station is ready to provide three to five days of medium-term forecasts during the spring sowing period.

The Agricultural Bank of China has planned to provide 21 billion yuan in loans for agriculture this year, 60 percent more than last year. Six provinces like Henan, Gansu, Anhui, Shanxi and Sichuan have taken out five billion yuan in loans for spring ploughing, a bank official announced today.

According to the Ministry of Agriculture, China can meet the demand of farmers for hybrid rice and other seeds this year apart from a shortage of hybrid maize seeds which are in short supply due to drought in the northern Chinese provinces later last year.

The official said seed supply departments have intensified quality control in order to provide better seeds for farmers and more than 7,000 people are working to inspect seeds nationwide.

According to the State Statistical Bureau, China produced 407.45 million tons of grain last year, a record high. However, the output of cotton, oil-bearing crops and sugar-bearing crops, which decreased, fell far short of domestic demand.

At present, about 70 percent of the raw material for China's textile industry is natural fibre supplied by agriculture and half of light industry production depends on farm produce and sideline products.

The government has increased investment in the construction of agriculture infrastructure by one billion yuan, and allocated 18.2 billion yuan for investment in agriculture, an increase of 200 million yuan over last year.

Meanwhile, China has decided to provide farmers with 107.5 million tons of chemical fertilizer, an increase of two million tons over last year. The relevant departments have pledged an ample supply of pesticides and farm use plastics for the entire year.

To increase the supply of chemical fertilizers, the Ministry of Chemical Industry has set targets for individual manufacturers and called on localities to support small chemical fertilizer enterprises which provide 50 percent of the total supply.

These measures paid off in the first month of this year. According to the State Statistical Bureau, China produced 1.36 million tons of chemical fertilizers and 18,900 tons of pesticides, five percent and 26 percent respectively higher than the same period last year.

To support agriculture, Lu Youmei, vice minister of the Ministry of Energy pledged to ensure the electricity supply for ploughing, drought and flood control and the production of chemical fertilizer, pesticides and plastics.

With favorable policies and support from various departments, the outlook is promising for grain production this year. However, experts say China has to make strenuous efforts to end the fluctuation in agricultural development.

Governor Proposes Measures To Promote Agriculture

OW 2802135090 Beijing XINHUA in English
1535 GMT 25 Feb 90

[Text] Jinan, February 25 (XINHUA)—Zhao Zhihao, governor of Shandong Province, a leading agricultural province of China, urged today governments at all levels in the province to pay more attention and take more effective measures to promote agricultural development.

In a report on government work made at the current 3rd session of the 7th provincial People's Congress, Governor Zhao put forward the following six measures to promote agricultural production:

- To expand acreage of grain, cotton, peanut and other crops and raise per-unit yields.
- To make efforts to promote the comprehensive development of agriculture including exploitation of hills, beaches, islands and lakes.
- To increase investment on agriculture by 20 percent this year compared with last year.
- To pay great attention to construction of water conservancy.
- To promote scientific and technological farming.
- To mobilize various trades and industries to support agriculture including supplying more chemical fertilizers, pesticides, plastic film and farm tools.

Zhao also reviewed that 1989 saw a good harvest despite the most severe drought for 70 years. Thanks to a 30 percent increase of investment and an unprecedented large scale construction of water conservancy projects, the province harvested 32.5 million tons of grain and 1.03 million tons of cotton last year. Its total agricultural output value reached 54.8 billion yuan, indicating a slight increase, and per capita rural income averaged 630 yuan, which represented an eight percent increase.

November 1989 Price Index of Free Market

HK2602145790 Beijing CEI Database in English
26 Feb 90

[Text] Beijing (CEI)—Following is the price index of goods in free market trade in Nov. 1989, released by CSICSC [China Statistics Information Consultancy Service Center]: (Note: Price of the same period of last year as 100.)

	National	Including	
		Town	Countryside
General Index	93.5	95.0	92.5
A. Price index of consumer goods	93.6	95.0	92.3
1. Grain	105.9	109.2	103.5
2. Edible vegetable oil	110.5	117.6	105.8
3. Vegetables	86.1	85.3	87.0
4. Dried vegetables	79.8	95.2	71.2
5. Meat, poultry, and eggs	102.6	102.9	102.3
6. Aquatic products	95.2	93.8	96.5
7. Fruits	78.9	83.7	73.6
8. Dried fruits	106.3	108.0	104.3
9. Daily necessities	109.0	110.7	108.8

	National	Including	
		Town	Coun- tryside
10. Firewood	104.1	103.2	104.4
11. Others	99.2	104.2	96.1
B. Price index of agricultural means of production	93.1		93.1
1. Forage	109.4		109.4
2. Farm tools	101.6		101.6
3. Poultry, pigs, sheep and goats	73.6		73.6
4. Large domestic animals	108.1		108.1
5. Bamboo and timber	118.4		118.4

Conservation Efforts

OW2602051490 Beijing XINHUA in English
0203 GMT 26 Feb 90

[Text] Lhasa, February 26 (XINHUA)—This winter more than 60,000 farmers in the Tibet Autonomous Region have taken part in 20 water-conservation projects throughout the region, according to the local authorities.

In the past few years the regional people's government has taken effective measures to improve water-conservation construction. Last year the region harvested 540,000 tons of grain, a record high.

This year 12.27 million yuan has been used for farmland improvement and water-conservation works, 2.82 million yuan more than last year.

When the projects are completed, irrigation will be improved or expanded on 93,000 ha of land. In addition, some 3,000 ha can be added for grass and tree planting.

Henan Encourages Export-Oriented Agriculture

OW2602234290 Beijing XINHUA in English
1522 GMT 26 Feb 90

[Text] Zhengzhou, February 26 (XINHUA)—Central China's Henan Province has recently worked out a plan to strengthen construction of export production centers, stabilize traditional commodities, develop new varieties and improve quality to boost export of farm produce and side-line products.

The province earned 810 million U.S. dollars in foreign exchange in 1989. Thirty-nine percent was from exporting agricultural and side-line products and 40 percent from light industrial goods and textile products based on agricultural products.

Henan Province has rich farming, forestry, animal husbandry and fishery resources. The province's output of wheat, sesame and leaf tobacco all rank number one in the country. Henan is also a leading producer of cotton, peanuts, soybeans, and sweet potatoes.

There are 170 export production centers for agricultural and side-line products in Henan.

Ninety percent of the population, second highest among China's provinces, are farmers.

The province's foreign trade and economic departments encourage farmers to produce handicrafts for export. The province has 250,000 drawnwork and embroidery workers. Last year, drawnworks earned nearly 100 million yuan (about 27 million U.S. dollars) in foreign exchange for the province.

Fifteen of the province's export products earn five million U.S. dollars in foreign exchange annually. Cotton, live pig, flue-cured tobacco, dried sweet potato, unprocessed goat skins, rabbit and sheep exports all earn more than ten million U.S. dollars.

In 1989, the province's economic departments invested 220 million yuan (about 59 million U.S. dollars) in the purchase of agricultural export products. The province imported 300 million U.S. dollars worth of chemical fertilizer and pesticide.

Tibet Succeeds in Applying Science to Farming

HK0103133590 Lhasa Tibet Regional Service
in Mandarin 1130 GMT 27 Feb 90

[Excerpt] Over the past few years Tibet has achieved notable successes in applying scientific and technological research to the development of agriculture and animal husbandry.

As a result, Tibet's agriculture has reaped bumper harvests for 3 years running. In 1989 grain output reached an all-time high, topping 1.064 billion jin, ending the agricultural stagnation the region endured for many years. These recent bumper harvests resulted mainly from efforts of leaders at various levels who adopted different practical measures, including introduction of the responsibility system, and also from efforts to vigorously popularize and apply science and technology and contract out farmland at different levels, thus arousing the enthusiasm of scientific and technical personnel. In 1989 there were more than 1,000 scientific and technical personnel, administrative cadres, and technicians trained from peasants who had contracted 700,000 mu of farmland, making up 25 percent of the aggregate sown area in the region. [passage omitted]

JINGJI RIBAO Reports on Fertilizer Industry

OW0103063090 Beijing XINHUA in English
0200 GMT 1 Mar 90

[Text] Beijing, March 1 (XINHUA)—China has become one of the leading fertilizer producers in the world and its output last year totalled 86 million tons, accounting for 11.5 percent of the world's total, according to "ECONOMIC DAILY" [JINGJI RIBAO].

In 1949, China had only two small chemical fertilizer plants in Dahan and Nanjing, with a total output of 30,000 tons.

In early 1950, three middle-sized nitrogenous fertilizer factories were imported from the Soviet Union and became operational in Jilin, Taiyuan, and Lanzhou. The chemical fertilizer industry began to develop then.

In 1984, China became the third largest producer of chemical fertilizer in the world with an annual output of 70 million tons. Products developed from ammonium sulphate only to more than 10 types, including urea, phosphamidon, nitramine, and others. [as received]

However, a period of stagnation followed. More than 22 million tons of chemical fertilizer could not find buyers. Factories ceased half of their production, employees stayed at home and equipment was idle.

The production responsibility system in the country stimulated farmers' interests to do better work in farming. As a result, the demand for chemical fertilizer has increased greatly. Supply became inadequate, and the Ministry of Chemical Industry made plans for fertilizer factories to produce more.

New records were set up in both 1987 and 1988. But problems such as lack of money and raw materials, shortage of energy and transportation were seen last year.

Despite the difficulties, output reached 86 million by the end of 1989. With an annual production capacity of 100 million tons, China now is a leading producer of chemical fertilizer in the world.

It took China 39 years to obtain the annual output of 85 million tons of chemical fertilizer, while it took the United States 50 years to do so.

The achievements are largely attributable to 10 years of reform. The contract system under which managers and employees are responsible for their own work gave them the incentive to increase production.

But Gu Xiulian, chemical industry minister, said that achievements only show what the ministry has done in the past. The state plans consider three big steps for the future of the fertilizer industry: Its production capacity should reach 120 million tons in 1990, 130 million tons in 1995 and 150 million tons in 2000.

China has a population of 1.1 billion, which is one fifth of the world's total, and a cultivated area of 1.5 billion mu (100 million hectares), which accounts for only seven percent of the planet's arable land.

Moreover, China's population is growing fast, while cultivated land is dwindling as a result of industrial construction and other reasons.

Per mu yield should be increased in order to feed the growing population. Sophisticated technology should be introduced into the traditional labor-intensive agriculture.

Average chemical fertilizer consumption per mu in China is 32 kilograms, much less than in Western countries. A total of more than 200 million tons of the fertilizer had been imported by the end of 1986, at the cost of 13 billion U.S. dollars. However the chemical fertilizer supply is far from enough.

While the farmers are demanding more fertilizer, the chemical industry is much worrying about funds. Even though more than half of the total investment in capital construction of the chemical industry is allocated for fertilizer production, the amount is only 25 billion yuan (5.3 billion U.S. dollars). Considerable further investment is imperative if greater development is to be achieved.

January Imports of Cereals, Oils, Foodstuffs

HK0103111390 Beijing CEI Database in English
1 Mar 90

[Text] Beijing (CEI)—Following is a list showing the volume of China's imports of cereals, oils and foodstuff in January 1990, according to primary statistics released by the General Administration of Customs.

Item	Unit	Jan.	Jan-Jan
Cereal	ton	658,955	658,955
Wheat	ton	538,308	538,308
Soybean	ton	56	56
Sugar	ton	14,690	14,690
Animal oils and fats	ton	5,583	5,583
Edible oil	ton	64,128	64,128
Other oils	ton	53,299	53,299 [figures as received]

Jiangxi Official Explains Use of World Bank Loans

OW0303005990 Beijing XINHUA in English
0914 GMT 2 Mar 90

[Text] Nanchang, March 2 (XINHUA)—The World Bank has decided to offer 60 million U.S. dollars in loans to help Jiangxi boost its agriculture, according to the provincial government.

According to Vice-Governor Jiang Zhuping, the loans will be used mainly in the development of animal husbandry, aquatic products, timber and tea.

Jiangxi has had co-operation with the World Bank since 1986.

Food Production, Price Controls Viewed*HK0203024190 Beijing CHINA DAILY in English
2 Mar 90 p 1*

[Text] Output of nonstaple food in the country's large and medium-sized cities increased in 1989 and prices did not rise as much as in 1988, according to the State Statistics Bureau.

Reports from 32 large and medium-sized cities showed that output of vegetables reached 29.68 million tons in 1989, an increase of 1.28 million tons compared with the previous year. The output of vegetables increased in 23 cities.

Beijing produced 370,000 tons of vegetables more than the previous year. In cities like Xian, Nanjing, Luoyang, Lanzhou and Jixi, output of vegetables increased 10 to 20 percent compared with the previous year.

The main reason for the increase in vegetable output was that farmland used for vegetable growing increased. In the 32 cities, total acreage of vegetables reached 980,000 hectares, an increase of 50,000 hectares.

Because of the abundant supply, prices did not rise as much as in the previous year, while improvements were also seen in the management of food markets.

According to information from 29 cities, output of meat reached 1.53 million tons, eggs 1.12 million tons and milk 750,000 tons. The average yearly consumption of meat per person was 13 kilograms, eggs 10.3 kilograms and milk 6.8 kilograms.

In Beijing, the yearly output of pork reached 156,000 tons in 1989, an increase of 15.7 percent compared with the previous year. Output of eggs reached 247,000 tons, an increase of 13.5 percent. And output of milk reached 198,000 tons, an increase of 10.5 percent.

The average yearly consumption of pork for each Beijinger was 15.3 kilograms, eggs 21.5 kilograms and milk 19.5 kilograms.

Market supply of pork, eggs and milk also increased in Shanghai, Chongqing, Changchun and Luoyang cities.

Plans for Agrosience Development Outlined*OW0403114890 Beijing XINHUA in English
1441 GMT 3 Mar 90*

[Text] Beijing, March 3 (XINHUA)—China is ready to step up scientific research in agriculture based on intensifying joint research, hi-tech development and basic research to ensure a steady agricultural development in the coming decade or more.

Addressing a national conference on science and technology, Guo Shuyan, vice-minister of the State Commission of Science and Technology, said China is to make

greater efforts in breeding new seeds in the coming decade and increase the popularization rate of breeding stock by 30 percent.

China is ready to set up a new agroscientific system in order to produce high yielding, effective, excellent and low resource consumption products. The system should be based on making full use of existing resources and protecting the environment, Guo added.

The new system, he said, includes new technology for increasing grain output, comprehensive land development, agriculture mechanization, biological technology and weather monitoring, forecasting and disaster prevention.

Guo said China is ready to make greater efforts to apply biological technology, micro-electronics and remote sensing technology in agriculture and develop seed and animal breeding with genetic engineering.

According to the State Commission of Science and Technology, China will try to improve the technological standard of chemical fertilizer, pesticides, plastic sheeting, farm machinery, irrigation facilities and other components of the agriculture industry. Efforts will be made to approach international levels in technology for chemical fertilizer production by the end of the century.

In the coming decade, China will emphasize collection, classification, preservation and examination of plant resources to develop high yielding and excellent quality farm plants.

Foundation Supports Key Agricultural Projects*OW0503222690 Beijing XINHUA in English
1551 GMT 5 Mar 90*

[Text] Beijing, March 5 (XINHUA)—The State Natural Science Foundation decided recently to provide 13 million yuan to support 13 key agricultural science projects.

These projects include hybrid rice research, research to improve and extend soybean strains, development of a mid and long-term food strategy and research on the causes and forecasting of droughts and floods in the Yangtze and Yellow River valleys, all vital to China's agricultural development.

The foundation has four other agricultural science projects under consideration for funding.

Modern Vegetable Seedling Base Built in Beijing*OW0503140290 Beijing XINHUA in English
1313 GMT 5 Mar 90*

[Text] Beijing, March 5 (XINHUA)—A modern vegetable seedling base has been built in southeastern Beijing's Chaoyang District, bringing the total to three in the Chinese capital.

Covering an area of 33,000 square meters, the base boasts three glass greenhouses in which the temperature

and ventilation are automated and irrigation and application of fertilizer program-controlled.

A senior agronomist, Ruan Xuezhu, says the base is funded by the European Community.

As the vegetable seedlings produced by advanced technology are good and cheap, farmers have received them warmly, she said.

Rural Beijing Benefits From 'Spark Plan'

OW0503104990 Beijing XINHUA in English
0835 GMT 5 Mar 90

[Text] Beijing, March 5 (XINHUA)—Beijing's rural economy has gained a great impetus in the past four years from the "spark plan", a State Science and Technology Commission plan aimed at developing practical technology to spur China's rural economy.

The capital, which has 10 counties and suburban districts, has completed a total of 510 "spark" programs since early 1986, bringing about 2.12 billion yuan in extra output value and 450 million yuan in taxes and profits.

After implementing the plan, the capital also established 134 "model rural enterprises", which have set a good example for their 17,866 counterparts, said a report in today's BEIJING DAILY.

More than 30,000 urban technicians have made contributions to the city's rural economy through various channels, and about 208,000 technological and management personnel have been trained so far.

As a result of these programs, every county and suburban district now has a science commission and a technological service system.

Heilongjiang Reports Beet Production Problems

SK1003051190 Harbin Heilongjiang Provincial Service
in Mandarin 1000 GMT 7 Mar 90

[Text] An Zhendong, vice governor of the province, delivered a speech at the provincial work conference on beet production on 7 March. In his speech, he stressed that the plan to plant 6 million mu of beet crops, which had been formulated for 1990 by the provincial People's Government, should be followed to the letter, and he regarded as a mandatory target.

In his speech, he stated that we will encounter some difficulties in implementing the beet production plan this year. According to various localities and data compiled by departments concerned, the province's beet crop acreage in 1990 will show a 25 percent decrease over 1989 and will be about three million mu, only half of the acreage set forth in the provincial People's Government's annual plan. The major reasons for the decline in beet crop acreage are as follows: 1) The policy of exempting peasants engaged in beet production from

handing over grains to the state has not been implemented. A large amount of farmland covered by the beet production plan has been used in other production. Some localities have imposed fines or grain donations on households engaged in beet production. 2) Benefits from beet production are lower than those of soybean and grains in areas where residents concentrate on soybean and grain production.

In his speech, An stated that this year the State Administration Bureau of Commodity Prices had raised the effective purchase price of beets from 140 yuan to 155 yuan per ton. In addition to other preferential conditions, [most beet production income will be] equal to or a little higher than that from grain production. Under such favorable conditions, it is imperative to enhance the implementation of the beet production plan. By no means should localities fail to fulfill the beet production plan.

In his speech, he reiterated that localities should realistically implement the provincial People's Government's policy of freeing farm households engaged in beet production from assuming the task of fixed-quota grain purchase. By no means should they give up the beet production assigned by the provincial People's Government in order to produce grain.

Commended at the work conference were eight cities, counties, and districts which handed over more than 100,000 tons of beets to the state in 1989, including the counties of Zhaozhou and Baiquan; 14 peasants outstanding in last year's beet production were also commended.

Inner Mongolia Exports Soybean to Soviet Union

SK1003015190 Hohhot Inner Mongolia Regional
Service in Mandarin 2300 GMT 7 Mar 90

[Text] Zalantun City of Hulun Buir League will export 40,000 tons of soybeans to the Soviet Union this year. According to statistics, since 1985, Hulun Buir League has exported a total of 270,000 tons of soybeans to the Soviet Union through Zalantun City, helping the state earn much foreign exchange.

Guangxi Reports Record Sugar Production

OW1003011690 Beijing XINHUA in English
1629 GMT 9 Mar 90

[Text] Nanning, March 9 (XINHUA)—Sugar production in the Guangxi Zhuang Autonomous Region, one of China's leading sugar producers, last year increased 18 percent to 1,200,300 tons, a record high.

The area under sugar cane cultivation expanded to 285,000 hectares, and scientific farming and field management measures were adopted, according to a provincial government official.

Hunan Popularizes Tilling Machines for Paddy Fields

OW 1003013690 Beijing XINHUA in English
1622 GMT 9 Mar 90

[Text] Changsha, March 9 (XINHUA)—Hunan Province now has 153,000 paddy field tilling machines, 90 percent of the national total. The area cultivated with these machines reached 1.72 million hectares in 1989, an increase of 23 percent over 1988.

The number of tilling machines last year increased by 36,000, 40 percent more than the previous year.

With these machines, 4.35 million hectares of land was planted with rice last year.

The use of tilling machines began in 1980's.

Nanxian County on the Dongting Lake plain, had 13,884 tilling machines at the end of last year. In Nanxian, 70,000 hectares of rice land were cultivated with these machines last year, accounting for 54 percent of the county's total area of paddy fields.

This year, the province plans to put another 30,000 tilling machines into operation.

The use of tilling machines is also common in Sichuan, Hubei, Jiangxi and Hainan.

Drop in Sugar Production Reported

HK 1203101290 Beijing CHINA DAILY in English
12 Mar 90 p 2

[By staff reporter Chang Weimin]

[Text] China has the capability to meet its domestic needs for sugar, but it has failed to produce enough, experts say.

The country's total production capacity has reached 6.8 million tons a year, close to the current demand of about 7 million tons, according to the experts.

However, the total sugar output dropped by 320,000 tons in 1988 from the 1986 total of 5.24 million tons. Now the 1989-1990 refining season is on, but officials in the field are not optimistic about the result.

To fill the gap between the output and rising demand, large quantities of sugar were imported—3.7 million tons in 1988 and an estimated 1.5 million tons last year, compared with the annual 120,000 tons imported during the 1950s, 630,000 tons in the 1960s, and 1.73 million tons from 1980 to 1985.

The sugar imports devoured large sums of foreign exchange; the 1988 total was around \$900 million.

Meanwhile, for years, little money was invested in developing beet and cane growing bases, officials with the Ministry of Light Industry told CHINA DAILY.

The result is that beet and cane cultivation dwindled. In Heilongjiang Province, one of China's major beet producers, the sugar beet growing area was reduced last year by 35 percent from the previous year, Zhao Wanrong, a senior engineer with the ministry, said.

News from the cane growing areas in the south also showed a shrinkage.

Experts said the negligence of beet and cane cultivation bases would cause the anticipated gains from years of efforts to revamp the refineries to unravel.

Some sugar refineries under the ministry are only partly in operation because of the lack of beet and cane. Some had to turn off their machinery before the end of last year, Zhao said.

This is also the case in refineries under other ministries and State departments, he said.

It was estimated that only about 60 percent of the country's total sugar refining capacity is in use this season.

Some 500 sugar refineries, employing about 360,000 persons, are involved in the industry.

Jia Zhiren, chief of the sugar production department of the ministry, said he agreed that one-third of the money spent to import it spent instead to increase beet and cane growing, could help the industry meet the domestic demands within a couple of years.

"China has a good natural environment to grow more beet and cane and enough experience," he said.

"China could have produced much more beet and cane," Zhao agreed.

However, the beet and cane purchasing prices, which have been controlled by the government and set low for decades, have dampened growers' enthusiasm, Zhao said.

Under the price setting, a farmer growing grain or vegetables can make a lot more profits than growing beet or cane. Surveys show that in the south last year, even the purchasing price of wheat straw was higher than that of cane.

In recent years, more and more beet and cane growers have reduced the cultivation or turned to other more lucrative crops.

The retail price of sugar also reduces refineries' initiative, Jia said.

Farm Commodity Production Bases Successful

OW 1503014490 Beijing XINHUA in English
1134 GMT 14 Mar 90

[Text] Beijing, March 14 (XINHUA)—Most of the commodity bases for major farm products, in which China has invested 1.9 billion yuan since 1983, have proved successful, a Ministry of Agriculture official said here today.

Last year, the official said, though output at 18 commodity grain bases in the drought-hit Northeast dropped, the rest of the country's 171 commodity grain bases produced 75 billion kilograms of grain, an increase of 6.2 percent over 1988, accounting for nearly 10 percent of the country's total. Grain sold to the state made up 28 percent of the total.

The 74 cotton production bases, he said, produced 1.5 billion kilograms of cotton, also showing increases over the previous year despite the nationwide fall in cotton production last year.

To provide more farm products for the country and further develop agriculture, China decided to concentrate investment and materials on major production areas in 1989. With loans from the central and local governments, farmers bought equipment, established agricultural technology centers and improved irrigation facilities.

Some 400 modern enterprises and 61 cold-storage houses have been set up. Some rare natural products have been saved from extinction.

Since last year, the official said, China has been busy constructing 80 more commodity grain production bases in dry areas of the Northwest, major rice production areas in the South and a few provinces and autonomous regions which import grain from other provinces.

Fish Consumption Up in Hubei Province

*OW 1503143780 Beijing XINHUA in English
0923 GMT 15 Mar 90*

[Text] Wuhan, March 15 (XINHUA)—People in Hubei Province consumed an average of 13.5 kg of fish last year, six times more than the figure of a decade ago.

An official from the provincial aquatic bureau attributed the increase to larger catches as a result of the adoption of the contract responsibility system, lower prices and reform in the fish distribution system.

The local government invested 100 million yuan in fish production last year.

About 665 million kg of aquatic products were harvested in Hubei in 1989. Both the output and variety have increased by a big margin.

Grain, Oil Crop Areas To Increase This Year

*OW 1703062690 Beijing XINHUA in English
1613 GMT 16 Mar 90*

[Text] Beijing, March 16 (XINHUA)—The country's areas sown to grain crops this year are expected to reach 1.7 billion mu (about 113 million ha), which is about 1.3 million ha more than the year's target.

After decreases for four years running, areas sown to early rice, summer grain crops and autumn grain crops are expected to enjoy increases of 2.4 percent, 1.5 percent and 3.2 percent, respectively, over last year.

Except for Heilongjiang and Shanxi Provinces, and Beijing and Shanghai cities, all provinces, regions and municipalities will increase their areas sown to grain crops to some extent this year, according to a government official.

Anhui To Give Top Priority to Agricultural Sector

*OW 1804041290 Beijing XINHUA in English
0229 GMT 18 Mar 90*

[Text] Beijing, March 18 (XINHUA)—China's Anhui Province will continue "heating up" its agricultural sector after scoring good harvests in the past few years, an official from this eastern province told XINHUA in an interview today.

Meng Fulin, deputy secretary of the Chinese Communist Party's Anhui Provincial Committee, said that the provincial authorities have decided to give top priority to its agriculture, especially grain production, in the coming years.

The 57-year-old Meng, who is also a deputy to the National People's Congress (NPC), has just arrived here to attend the NPC annual session, which is due to open next Tuesday.

Anhui Province pioneered China's rural reform 12 years ago, when peasants there first introduced the household contract system, which broke the communal egalitarianism and linked household income to its farming output.

Since 1985, the agricultural province has sold to the state an average of 2.5 million tons of grain each year, one of the largest among all provinces.

Last year, Meng said, grain output of the province equalled the 1987 record of 24.2 million tons, a rise of five percent over 1988. Good harvest was also registered in fruits, aquatic and animal products and oil-bearing crops.

Per-capita income for the province's 42 million rural population last year came to 515 yuan, an all-time high.

As the first measure to boost local agriculture, Meng said, the province has decided to further improve various forms of the household contract system while strengthening the rural collective economy.

Anhui also plans to spread the use of agro-technology and set up six scientific development areas this year in an effort to introduce fine varieties of crops.

Local capital input in the sector will be increased by 100 million yuan to improve the irrigation systems and other farming facilities there, Meng said.

As a member to the legislative body representing farmers from Anhui, Meng also urged the state to increase investment in the agricultural sector while reducing the burden of the farmers.

EAST REGION

Fujian Sets Guidelines on Marxist Study for Cadres

900103541 Fuzhou FUJIAN RIBAO in Chinese
16 Jan 90 pp 1, 3

[Article: "Fujian CPC Provincial Committee Decision To Further Strengthen Marxist Theoretical Studies for Provincial Cadres, 28 December 1989"]

[Text] Improving the party theoretically is a fundamental guarantee of the party's correctness and its scientific essence. The most fundamental and most important means of strengthening the party is to insist on it being built into a vanguard of the working class armed with Marxism-Leninism and Mao Zedong Thought. We must conscientiously study Marxist theory, improve the theoretical qualifications of the masses of party members, cadres, and especially leading cadres at all levels, use Marxism as a guide to build the party ideologically, and use Marxism to study and probe the major political, economic, and social problems of our time. This is the urgent task presently confronting the entire party. To further strengthen Marxist theoretical studies for provincial cadres, we should act in accordance with the following decision:

1. Profoundly Understand the Significance of Study, Conscientiously Improve Theoretical Qualifications

Marxism-Leninism and Mao Zedong Thought constitute the theoretical foundation of our party's guiding ideology, the theoretical basis of our party's line, guiding principles and policies, and world outlook and methodology for our Communist Party members and cadres at all levels. If we are to build the party ideologically and if we are to strengthen the correctness and scientific essence of party leadership, we have to draw on the support of the great cognitive tool of Marxism. The strengthening of Marxist theoretical training has, especially for our time, a particular significance. A prominent feature of "peaceful evolution," which the forces of reaction are using internationally to subvert the socialism system, is the vain attempt to weaken our theoretical foundation by collectively attacking Marxism. Domestically, an extremely small number of persons who stubbornly persist in bourgeois liberalism have been coordinating with each other from afar and actively spreading the theory that Marxist is "outdated." The purpose of studying Marxism is to resist and eliminate the effects of bourgeois liberalism, to protect Marxism, and to uphold socialism. Our party is in the midst of guiding peoples of various nationalities in the incomparably grand and enormously large task of reform, opening to the outside, and modernization. This constitutes a process of practical exploration in the self-perfection and self-development of socialism. There are a number of complicated things that we must comprehend, a number of large issues that we must understand, and a number of yet-to-be-understood realms that

we must develop. This presents us with the task of grasping the standpoint, the viewpoint, and the method of Marxism, of correctly understanding its objective laws, of studying the situation, and of resolving new problems. Studying Marxism is required to promote reform and the opening to the outside, to properly accomplish improvement and rectification, and to build socialism with Chinese characteristics. With the reform of the cadre system and the replacement of veterans with new talent, our cadre ranks underwent a big change. Large numbers of comrades entered cadre ranks who, although qualified at a certain cultural level, lacked Marxist theoretical qualifications or who had a some theoretical knowledge but were unskilled in its practical application. Some entered leading groups at various levels. These people urgently need the benefit of this course to enhance their ideological and theoretical level and their leadership and organizational skills.

The study of Marxist theory is extremely necessary for the broad masses of cadres and especially for leading cadres at all levels. It is needed in the ideological realm to vanquish nonproletarian thinking with proletarian thinking. It is needed to unceasingly advance the cause of socialism with Chinese characteristics. It is needed to enhance the political qualifications of cadre ranks, to ensure that party and state leadership remains in the hands of loyal Marxists, and to guarantee that the cause initiated by the older generation of proletarian revolutionaries is passed down from one generation to the other. This is indeed an extremely important task of strategic significance. Cadres at every level must fully understand this and constantly improve their consciousness of studying theory.

2. Work Out the Content of Theoretical Studies in a Planned Way, Make the Study of Marxist Philosophy the Focal Point

Cadres throughout Fujian must earnestly study the writings of Marxist philosophy, political economy, Marxist party building doctrine, Mao Zedong, and the older generation of proletarian revolutionaries, including the writings and expositions of Peng Xiaoping on building socialism with Chinese characteristics. Theoretical studies must also be integrated with the spirit of Comrade Jiang Zemin's National Day remarks and the 4th Plenary Session of the 13th CPC Central Committee. Cadre theoretical studies must definitely be carried out in a planned, guided, and systematic manner. The lackadaisical, piecemeal, on-again-off-again approach must change. A list of required readings must be drawn up and separately prioritized according to the differing needs of differing subjects. Cadres, *concerned* from county-level units and above must set up the political and theoretical curriculum stipulated by the Central Committee Propaganda Department to meet the needs of standardized instruction in Marxist theory for cadres.

At present, cadres throughout the province, especially leading cadres, must study Marxist philosophy. Marxist philosophy is the basis for the Marxist scientific system. It is the most scientific and most perfected world outlook

and methodology yet known to mankind. It is our formidable ideological weapon for transforming both the subjective and objective worlds. Only if we first earnestly master philosophy can we establish a scientific proletarian world outlook and resist the inroads of bourgeois liberalism ideology, and only then can we prevent and overcome thoughtlessness, nonchalance, one-sidedness, and thinking in absolutes, manifest in our work a strong sense of principle, system, vision, and creativity; and better implement the party line, its guiding principles, and its policies. In studying Marxist philosophy, we can select and study certain writings and discussions by Marx, Engels, and Lenin. The main thing is to master the philosophical writings of Comrade Mao Zedong, such as *On Practice*, *On Contradiction*, *Problems of Strategy in China's Revolutionary War*, *On Protracted War*, *On the Correct Handling of Contradictions Among the People*, and *Where Do Correct Ideas Come From?*, and those of Comrade Deng Xiaoping, which are rich in philosophical ideas. In studying Marxist philosophy, we should emphasize the need to grasp three basic standpoints: first, the standpoint of practice, which adheres to seeking truth from facts, to everything proceeding from actual conditions, and to using practice as the sole criterion for judging truth; second, the standpoint of the dialectic which adheres to dealing with everything in a comprehensive, integrated, and developed manner in order to promote their positive transformation; third, the standpoint of the masses, which adheres to the masses being the principle part of practice and knowledge and the motive force in creating history, to having confidence in them, to relying on them, to closely integrating with them, and to wholeheartedly serving them.

3. Bring Into Play the Style of Study That Integrates Theory With Practice, Set Up Various Types of Strong Study Systems

Whether cadre study of Marxist theory can persevere, can be thoroughgoing, and can achieve results depends on whether the superior style of study that integrates theory with practice can be brought into play. Establishing a fine style of study is a requirement of Marxist party spirit and practice. It is also a question of attitude toward Marxist theory. We must prevent and overcome two tendencies. One is the tendency toward narrow empiricism, not being serious about reading, being satisfied with only a smattering of knowledge on a subject, and not seeking full explanations. The other is the tendency toward dogmatism, reading without application, and theory divorced from practice. In devoting our efforts to combining theory with practice, we must both engage in serious self-study by assiduously studying original works, by doing our best to understand them, by memorizing them, and by getting a good grasp of basic principles and basic viewpoints, and study to apply what we have learned to explain things, to test and verify, to provide answers, and to resolve practical problems that set come up against, thus organically combining the process of book learning with the process of studying and resolving problems.

In integrating theory with practice, we must stress integrating the practices associated with the building of socialism for 40 years in China and in Fujian, especially modernization, reform, and opening to the outside since the 3d Plenary Session of the 11th CPC Central Committee, the practices associated with improvement and rectification and with deepening reform, the practices associated with the education and struggle against bourgeois liberalism ideology, and the practices associated with individual ideas, seriously consider the past and look to the future, and conscientiously remold our world outlook to guide all aspects of our work. Leadership at all levels must combine the serious study of theory with immersing themselves in practice and conducting inspections and research. They must correctly handle the relationship between adhering to the four cardinal principles and adhering to reform and the opening to the outside, the relationship between "one center" and "two basic points," the relationship between improvement and rectification on the one hand and reform and the opening to the outside on the other, the relationship between developing a socialist commodity economy and properly understanding ideological and political work, the relationship between doing a good job of party building and building a socialist spiritual civilization, and the relationship between the two civilizations, thus bringing into play our political superiority and fully implementing the spirit of the 4th Plenary Session of the 13th CPC Central Committee.

To make the study of Marxist theory a common practice and to persevere in it, we must establish and consolidate various systems. Following are the main things to be done. First, a system of central study groups is to be set up by the various party committees at the county level and above. Members of the various party committees at the county level and above must insist on participation in the central study groups, make preparations in accordance with the demands of the central authorities and the provincial CPC committee, and ensure that each period's topic for theoretical study and the readings of Marxist writings revolve around theoretical and practical problems of modernization, reform, and the opening to the outside. The study system must be strict. There should be regular verification of how often central study group members take part in study, for how long, and what their study record is. Study secretaries should be assigned. With the primary emphasis on self-study, the central study groups must adopt various methods for carrying out discussions, promoting exchanges, and providing guidance. They can organize investigations and research, special discussion topics, and composition of theoretical articles. Lecture groups must be responsible for organizing guidance and supplying study materials. We must set up a system of inspection and examination. The propaganda department of the provincial CPC Committee will designate a time each year to inspect and examine the central study groups of each county and city party committee. The locality and city party committees must similarly inspect and examine the central study groups of their subordinate counties and prefectures.

Second, a rotational training system for party members and cadres is to be set up. All party members and cadres must receive periodic instruction and training from party organizations, especially middle- and upper-level leading cadres. They must attend an appropriate party school for rotational training once every three to five years. They must take approximately half a month each year to do some reading to reflect on major problems that need to be resolved in their work. On the basis of this requirement, party schools at all levels must divide their labor and use a unified program to run their various classes and thoroughly master rotational training for cadres. Ordinarily, party members and cadres are responsible for organizing rotational training for government organizations and party committees at their own level or for grassroots party organizations. Third, a system for cadres is to be set up for standardized instruction in Marxism and for regular political study. Except for cadres taking rotational training, party members and cadres from party and government offices at the county level and above, cadres from ideological departments at the county level and above, and political work cadres from enterprises and institutions at the county level and above must all engage in theoretical studies on the job. Following their study of the prescribed political and theoretical curriculum, those who pass the tests are issued a course completion certificate. This becomes part of their post's training and learning profile. At the same time that cadres are engaged in the systematic study of Marxist theory, they must also take part in regular political and current events policy studies. The times for these studies must be specifically scheduled and adhered to. Fourth, a system is to be set up to integrate party school backgrounds and cadre training with employment. Party school education reflects mainly that party leading cadres are qualified in party spirit and in Marxist theory. It is one of the qualifications needed to be recommended or appointed to certain party and government leadership positions. All those who have completed the three courses, that is, Marxist basic theory, the theory of socialism at the initial stage, and the party's basic line, the theory of party building, and party basic knowledge, and have passed the tests can receive a formal record of their party school education and be issued a certificate of completion to be placed in their personnel file. From now on, all party members and cadres who are appointed to leadership posts must have undergone appropriate party school training. Generally, when instituting the "four transformations" for cadres, qualifying in the principles of proletarian party spirit and Marxist theory must also be an objective of cadre revolutionization, a main criterion in the selection and examination of cadres, and a condition for assuming a post for party and government office cadres, for ideological department cadres, and for political work cadres in institutions or a condition for their promotion to a professional job.

4. Fully Utilize the Ideological and Theoretical Fronts, Conscientiously Strengthen the Building of Theoretical Ranks

We must pay a high degree of attention to and bring into full play the propaganda, educational, training, and

guidance functions of various ideological and theoretical fronts for cadre study of Marxist theory. We must take effective measures and create necessary conditions to enable various party schools, cadre schools, lecture groups, political theory classes in universities and middle schools, party newspapers and party publications, radio and television, publishing houses, and theoretical publications to truly become strong fronts in the dissemination and research of Marxism-Leninism and Mao Zedong Thought. Party schools, cadre schools, and lecture groups must shoulder the task of cadre education, training, and guidance and constantly improve their standards of instruction. Party newspapers, party publications, radio, television, and theoretical publications, which are the main channels of propagandizing Marxism-Leninism and Mao Zedong Thought to cadres, must make the propagandizing and inculcation of a basic Marxist outlook and basic Marxist awareness their main topics. They must develop special columns and put out special issues, conduct discussions on special topics, present popular forums, and develop rich and varied mass activities such as learning competitions and quiz programs in order to effectively popularize and disseminate Marxist theory. Publishing houses must also systematically compile and publish good-quality, concise, and popular theoretical publications that cadres will be encouraged to read.

Whether theoretical ranks can be strengthened or not is linked directly to the effectiveness and quality of Marxist theoretical studies for cadres. This requires our attention. In building theoretical ranks, first we need to stabilize them, second we need to strengthen them, and third we need to improve them. We must meet the needs of education and properly match the assignment of theoretical instructors to party schools, cadre schools, and lecture groups. We must carry out ideological and political education in theoretical ranks which will aid them in devoting their lives to Marxist political work. At the same time, we must create conditions to help them effectively grasp their own theoretical studies, strengthen social investigations, base themselves in reality, immerse themselves in the new situations and new issues relating to reform, the opening to the outside, and modernization, constantly raise their level of Marxist understanding, seriously eliminate various erroneous ideological influences from the bourgeois liberalism that ran unchecked for several years, and develop theoretical research, theoretical criticism, theoretical instruction, and theoretical propaganda directly aimed at the confusion that has been created in determining theoretical right from wrong. We must continue to implement the "double hundred" policy, encourage theoretical workers to emancipate their thinking, boldly make explorations, respect facts, obey the truth, and on the basis of adhering to the party's four cardinal principles and the party's basic line, enhance the unity and cooperation of theoretical ranks. We should strive to achieve higher quality research results and obtain greater social benefit from theoretical propaganda.

5. Party Members and Leading Cadres Must Take the Lead in Studying Theory. They Must Actively Strengthen Their Leadership of Studies

Leading cadres at all levels, especially middle- and high-level cadres, must take the lead in studying, propagandizing, and researching Marxist basic theory. They must soberly realize that "a Communist Party member who lacks qualifications in Marxism and who is unskilled in applying the correct standpoint, outlook, and method in analyzing and resolving problems cannot function properly, nor can he become a qualified leading cadre of the party." We must strengthen the consciousness for theoretical study, seriously prevent and correct conditions where people get lost in their daily routines, neglect theoretical studies, and ignore ideological and political developments and set an example for theoretical study, thereby earnestly improving our theoretical level and political acuity. At the same time, we must earnestly overcome the phenomenon of being "on the one hand hard" and "on the other hand soft," place cadre study of Marxist theory high on our agenda, do serious research several times each year, and strengthen our planning work and our inspection and encouragement work, so that, level by level, we will have successively put into place leadership, programs, systems, and inspections. We must also create various needed conditions to support comrades engaging in theoretical propaganda training who are boldly shouldering their responsibilities and boldly forging ahead to effectively grasp theoretical studies.

CENTRAL-SOUTH REGION

Campaign Continues Against "7 Vices" in Guangdong

QNDN0322A Beijing RENMIN GONGYAN BAO in Chinese 9 Jan 90 p 1

[Article by He Zhanming (0149 0594 2494) and He Weihe (0149 4850 0735): "Guangdong's Struggle To Eliminate "Seven Vices" Enters Legal Channels"]

[Text] In a little over a month, Guangdong Province's struggle to wipe out the "seven vices" has achieved notable results, and has begun to enter legal channels.

Before launching this struggle to wipe out the "seven vices," the Guangdong provincial government had announced that it would enact several local laws and regulations related to wiping out the "seven vices," such as the "Guangdong provincial regulations regarding the suppression of prostitution and the soliciting of prostitutes," "Guangdong Provincial People's Government penal regulations regarding the prohibition of gambling," "Guangdong Provincial People's Government provisional regulations regarding the prohibition of the sale and use of narcotics," and "Guangdong provincial government regulations prohibiting pornography." Recently, the Guangdong provincial government also promulgated the "Guangdong provincial provisional

regulations regarding the custodial education of seven types of lawbreakers, including prostitutes," and put it into force beginning 1 January of this year. These "provisional regulations" point out that imposing civil penalties on these seven types of lawbreakers, including prostitutes, is inadequate punishment, but that their offenses are not serious enough to call for labor education, and custodial education may be conducted. The term of custodial education is from three months to one year, but may be extended from three to six months for those offenders who have not mended their ways upon completion of the term.

In the struggle to wipe out the "seven vices," Guangdong's public security organs, in view of the formation of gangs involved in criminal activities and the serious harmfulness of these activities, have widely aroused the masses to action, concentrated the police force, ferreted out criminal dens, and taken vigorous measures to counter gangs. In a little more than a month, they have uncovered more than 1,000 criminal gangs involved in the "seven vices," and arrested more than 5,000 of their members. At the same time, in cooperation with concerned departments, public security organs have launched a political offensive, simultaneously cracking down and conducting propaganda. By 20 December 1989, 2,528 "seven vices" offenders in Guangdong had turned themselves in to the public security organs and confessed their "seven vices" activities. Guangdong's public security organs are also giving attention to intensifying the political offensive directed toward criminals in custody, urging them to expose and denounce other offenders and perform meritorious services to atone for their crimes. Guangzhou City public security organs have already obtained 61 leads from criminals in custody, and through investigating them have apprehended 46 criminals of various types and smashed a number of "seven vices" gangs and dens. On the evening of 28 November 1989, based on leads provided by unlicensed prostitutes in custody, the Yuexiu Public Security Branch smashed a "three-in-one" prostitution, pornographic video, and gambling den in the Liuhua Guesthouse, apprehended four criminal offenders, and seized five pornographic videotapes, over 50,000 yuan in gambling funds, and a quantity of gambling paraphernalia at the scene.

Teenage Crime Rising in Guangdong

QNDN0322B Hong Kong MING PAO in Chinese 15 Jan 90 p 2

["Guangdong Teenage Crimes Approach Peak Period, Public Order Worsens"]

[Text] Recently, near the end of the year, many armed robberies by the "Guangdong-Hong Kong Army" have occurred in Hong Kong. Actually, since the year before last, Guangdong Province has also seen a dramatic increase in firearms thefts and sales, as well as armed robberies and assaults, there were more than four times as many cases during the first eight months of last year.

for example, than during the same period the year before last. There is a massive flow of firearms into society, and criminal elements are still constantly buying arms from the China-Vietnam border and elsewhere, whence they flow into Guangdong, making Guangdong's arms market very active. This constitutes a serious threat to Guangdong's public security, and is also a secret worry of Guangdong's neighbor, Hong Kong. With the worsening of China's economic situation and the impact of an austerity policy on Guangdong, this problem may grow worse.

Concerned departments have disclosed that this year, around New Year's Day alone, several cases of armed robbery occurred in Guangdong.

Concerned parties believe that there may be an escalation of violent methods in some criminal cases. Due to the international trend toward violence, and particularly the influence of certain criminal forces in the Hong Kong-Macao region, new criminal methods are spreading across a wider range in Guangdong.

At the same time, two new circumstances may also appear in teenage vagrant crime. First is the new vagrant crime problem caused by the unchecked influx of population and the influx of workers in public projects. Early last year and following the summer harvest, there were two successive waves of unchecked influx of public project workers into Guangdong, and most of these workers were teenagers. It is still rumored in cities in other provinces that "of all places north, south, east, or west, for getting rich, Guangdong is best," and a new wave of unchecked inflow may emerge again, which enterprises would be unable to absorb. This contradiction may still exist two or three years from now and have a renewed effect on teenage crime.

Second, there may be an increase in the number of teenage vagrant criminals who resume criminal activities after being released from labor reform or labor education. Since the mainland cracked down severely on criminal offenders in 1983, the number of teenage criminals sentenced by Guangdong Province's courts has increased by 15 to 30 percent annually, and about 60 percent of these receive sentences of under five years.

At the same time, the number of offenders sent for labor education in Guangdong has also increased, until there were 16 percent more offenders in labor education camps in August of last year than at the peak period of the "severe crackdown" in 1983. This shows that the number of teenagers who are released from labor reform and labor education at the end of their terms during the next few years may increase year after year. The likelihood that they will resume criminal activities is also considerable.

Concerned departments predict that Guangdong's teenage crime will increase greatly this year. The most recent sampling survey by the concerned departments shows that only 70 percent of Guangdong Province's children between six and 14 years are in school, putting

it in last place among the nine Chinese provinces and regions participating in the survey. Since nonstudents and dropouts immediately enter the legal age of criminal responsibility, this indicates that there will be a large "reserve force" of criminals.

With the trend of continual growth of teenage crime, individual laborers, idle personnel, and middle and elementary school dropouts will become increasingly conspicuous in student crime. Guangdong's 1982 census data showed that the percentage of the total population accounted for by teenagers would reach its peak period around this year, and that youths between 18 and 22 years made up the largest of all age groups. Most of them are at the stage of finding a job or seeking a livelihood after graduating from middle school, and they often become individual laborers or idle personnel, which influences changes in the status of teenage crime. Among the teenage criminals sentenced by Guangdong's courts between January and August of last year, individual laborers and idle personnel had increased 50 percent and 30 percent, respectively, compared with the same periods the year before last. This is an omen.

Hainan Plans Rural Radio-TV Network

HK 1303073790 Hainan Provincial Service in Mandarin 2400 GMT 12 Feb 90

[Text] A provincial conference opened in Hainan on 12 February to review plans for the development of a radio and television network in the rural areas of our province.

More than 20 leaders of the Provincial Broadcasting and Television Station and engineers of the relevant departments attended the meeting.

The meeting analyzed problems existing in the present rural radio and television network in our province, discussed how to implement the central principles guiding the development of rural radio and television network, [word indistinct] and how to give full play to the role of radio and television network in the building of the two civilizations in the rural areas, and worked out a seven-year plan for the development of radio and television in the rural areas of our province.

Guangdong To Send Teachers, Students to Grassroots

HK 2607120490 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 23 Feb 90

[Text] On 19 February, the offices of the provincial party committee and the provincial people's government issued a circular on transmitting a report on organizing university and college teachers and students to carry out social investigations. The circular says: "The provincial party committee and provincial government approve the opinions put forward by the working committee responsible for provincial universities and colleges and the provincial Bureau of Universities and Colleges on organizing young students in the whole province to carry out

social investigations in a guided and planned way. It is necessary for us to provide them with education in our national conditions and in upholding one center and two basic points."

The circular points out, "Organizing university and college teachers and students to go to the grassroots to carry out social investigations, so that they understand our national conditions and the conditions of our people through contacting workers and peasants, support reform and opening up, enhance their understanding of one center and two basic points, increase their ability to distinguish rights from wrongs and to resist erroneous ideological trends, is an effective method of providing university and college students with education in upholding the four cardinal principles and opposing bourgeois liberalization."

The circular urges party and government leaders at all levels to attach importance to the work. It stresses that various quarters in society must support it by doing their best to provide university and college teachers and students with convenience. [as received] Educational departments and universities and colleges must do a meticulous work to organize and guide them to strive for better results in social investigations.

Haikou Sets Objectives for Spiritual Civilization

HK0503130490 Haikou Hainan Provincial Service
in Mandarin 0500 GMT 3 Mar 90

[Excerpts] A meeting to commend advanced individuals who had done well in socialist spiritual civilization concluded in Haikou City this morning after a three-day session. The meeting praised 69 advanced units and collectives as well as 259 advanced individuals for having done well in socialist spiritual civilization in 1989.

These advanced units and individuals have made prominent achievements in adhering to the four cardinal principles, opposing bourgeois liberalization, exercising strict management over the party, strengthening ideological and political work, giving play to the party's role, sincerely performing their public duties, wholeheartedly serving the people, helping others, and combating corruption and violations of the law. [passage omitted]

Lin Mingyu, secretary of the Haikou City party committee, delivered a work report at the meeting and set requirements for raising the city's spiritual civilization to a new level in 1990.

First, it is necessary to extensively and profoundly conduct political and ideological education in opposing infiltration, sabotage, and peaceful evolution. [passage omitted]

Second, it is necessary to crack down on the six vices so as to purify the mood of society; in addition there is a need to foster lofty ideals, cultivate new habits, and make new contributions.

Third, cadres at all levels should study Marxist theory, have firm faith in it, and improve their theoretical accomplishments. Party committees at all levels should strengthen their leadership over spiritual civilization and see to it that work concerning spiritual civilization be done in a down-to-earth manner.

(Wang Houhong), director of the provincial party committee's propaganda department, attended the meeting and expressed the hope that actual results be made in spiritual civilization.

SOUTHWEST REGION

Heilongjiang Urges Changes in Ideas About Education

SK2402050190 Harbin Heilongjiang Provincial Service
in Mandarin 1000 GMT 22 Feb 90

[Excerpts] The provincial educational work conference concluded in the city of Harbin on 22 February. During the conference, the representatives held that after the educational work conference, our province will present a prosperous scene of steady development in educational undertakings.

During the work conference, participating comrades heard the report given by Vice Governor Huang Feng entitled "Let the Entire Party and All the People Make Concerted Efforts To Successfully and Vigorously Carry Out Educational Undertakings To Make the Province Flourish." They discussed the decision of the provincial party committee and People's Government on further enhancing the province's educational work and discussed their experiences, and they clearly understood the guiding ideology of first making schools flourish before making the province flourish, of relying on scientific and technological progress, and of upgrading the quality of laborers in carrying out economic construction. They also clearly understood the guiding principle and tasks of developing and conducting reform in education in the 1990's, particularly in the period of improving the economic environment and rectifying the economic order, and the objective of relying on the people in conducting education. [passage omitted]

During the work conference, Zhou Wenhua, deputy secretary of the provincial party committee, delivered a speech calling for resolutely upholding the principle of putting education in the strategic position of priority development. In his speech, he said that among the factors that make rural areas flourish, education is the key and the foundation. At present, the key to making education flourish lies in having leading personnel of the party and government at all levels and leading comrades of relevant departments deal successfully with the following issues on ideology.

1. We should change the ideas that we do not have to rely on education to realize economic and social development and that we should first develop the economy and then education. [passage omitted]

2. We should change the idea that education only represents consumption and an independent undertaking and is only of long-term significance. We must note that the investment in education is of special and strategic significance and is aimed at training the great reserve forces of socialist construction and developing the intelligence of socialist builders.

3. We should change the idea that the meaning of education is only confined to schools, youth, and job preparation.

4. We should change the idea that education only represents state action and can be only developed by relying on the state.

In his speech, Zhou Wenhua discussed the task of finding a way to develop education by proceeding from the reality in the province. The way is to rely on the people in conducting education and making education a success in order to serve the people. This represents an important development scored by the educational front in ideas, guiding ideology, and practical measures for conducting education. [passage omitted]

Chen Yunlin, vice governor of the province, presided over today's work conference and also delivered a speech.

Also attending the work conference were Wang Luming, Ji Hua, Du Xianzhong, Huang Feng, and Wang Fei; Chen Lei, member of the Central Advisory Commission; and Zhao Dezun, a retired veteran cadre.

Tasks Defined in Liaoning Educational Work Conference

SK0403235190 Shenyang Liaoning Provincial Service in Mandarin 10:30 GMT 2 Mar 90

[Text] The provincial educational work conference ended today. Wang Wenyuan, vice governor of the province, made an important speech on the situation in and future tasks of our province. He said we should strengthen ideological education among university and college teachers and students, consciously do a good job in stabilizing the situation, strengthen the party's leadership over educational work, and rationalize the management system of universities and colleges. Except for universities and colleges that were assigned to carry out, on a trial basis, the president responsibility system, all should carry out the president responsibility system guided by party committees. Primary and middle schools should continue to carry out the school principal responsibility system on the premise that their party organizations play a key role in conducting ideological and political work. Universities and colleges should set up a high-quality political workers contingents and ranks

of high-quality political and theoretical teachers; and foster conditions that enable teachers and students to be more in touch with reality, understand the national situation, and participate in various kinds of labor activities. We should exert efforts to establish a high-quality teachers contingent and try every possible means to help them solve their most urgent problems. The provincial party committee and the provincial government have constantly shown concern for some 90,000 teachers who are teaching in the rural civilian-run primary and middle schools, so their wages should be paid on schedule and the accounts should be settled at least at the end of the year. The educational front should continue to consolidate itself and further enhance reform. The confused phenomena of recklessly running schools, collecting fees, and selling books should be corrected. Institutions of higher learning subordinate to the province should control their scales, readjust specialized courses, optimize the teaching structure, and upgrade educational quality. We should continue to improve the conditions for running schools and open various channels to collect funds with a view to alleviating the strain on educational funds. Governments at various levels should strengthen its leadership over the educational work and strive to develop several educational projects every year.

Heilongjiang People's Congress to Reform Agenda, Methods

SK2402034590 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 7 Feb 90

[Text] On the afternoon of 7 February, the Standing Committee of the provincial People's Congress sponsored a press briefing, at which spokesman Yang Yumin delivered a speech in which he stated that at the third session of the seventh provincial People's Congress, scheduled for early March this year, the provincial People's Congress will conduct some important reforms in the agenda and methods. Major contents of these reforms are as follows.

1. The draft work report of the provincial People's Government, which will be submitted to the session, will be distributed among the deputies of the provincial People's Congress 20 days prior to the session to enable the deputies to examine it, raise questions, carry out investigations, and solicit opinions from the units concerned in advance. By so doing we can better pool together the wisdom of the people throughout the province; make the People's Congress session a success; and enable the policy decisions to become more democratic and scientific, in conformity with reality, and reflect the people's desires.

2. Prior to or during the session, the provincial People's Government will be responsible for dealing with or answering the questions, criticism, and suggestions submitted by the deputies.

3. The provincial People's Government will be responsible for arranging dialogue between deputy groups and

relevant provincial level departments so that they can talk and deal with problems face to face. Of course, the practice of raising questions in accordance with the law and putting forth advisory opinions is also available.

4. The session's presidium may directly hear reports given by deputy groups regarding their discussion results.

5. Visitors' seats during the session will be increased. Among those who can attend the session as visitors will be representatives from various democratic parties, mass organizations, higher educational institutions in the city of Harbin, and a number of enterprises.

6. During the session, the provincial People's Congress will implement the principle of being economical, enable the session to be a place where practical problems are solved and where no exceptional procedures taken, and take the lead in tightening its belt.

Regarding the purpose of reforming the agenda of the third session of the seventh provincial People's Congress, spokesman Yang Yumin stated in his speech at the press briefing that these reforms are aimed at enabling the state apparatus and their working personnel, particularly their leading cadres, to firmly foster the concept of being public servants; to earnestly listen to the people's opinions; to accept the people's supervision; to respect and protect the democratic rights of the people as the masters of their own affairs and managers of the country; to wholeheartedly perform practical deeds and seek happiness for the people; to overcome bureaucracy; to make progress in encouraging personnel to perform their official duties honestly; to maintain flesh and blood ties between the masses and the party, and between the masses and the government; to share weal, woe, and a common fate with the masses; and to strive to fulfill the tasks of improving the economic environment, rectifying economic order, and socialist modernization.

Jilin Reports Procuratorial Work Achievements

SA2202050790 *Changchun Jilin Provincial Service in Mandarin* 2200 GMT 15 Feb 90

[Summary] In 1989 the procuratorial organs at all levels across Jilin Province scored marked achievements in dealing with criminal cases. The people reported 32,936 cases to the public authorities at all levels. Of these cases, the procuratorial organs at all levels placed 2,479 on file for investigation and handling, which involved 3,064 personnel, including 28 cadres at the department-bureau level in prefectures, 381 cadres at the section level in counties, and 877 cadres at the section level in townships. Of these cases placed on file, 1,989 were dealt with, of which 1,518 convicts were punished through administrative disciplinary sanctions; 180 through party disciplinary sanctions; 286 convicts were handed over to the judicial organs for their criminal liabilities; and more than 18.8 million yuan of embezzled money and illegal

income was recovered. They also recovered more than 25.5 million yuan of economic losses for the state and collectives.

Heilongjiang Tests New Way of Learning Chinese

OW 2802084090 *Beijing XINHUA in English*
0140 GMT 25 Feb 90

[Text] Harbin, February 25 (by XINHUA correspondent Liu Changjin)—Educators in Heilongjiang Province have successfully tested a new method of learning Chinese.

The conventional teaching method calls for learning Chinese characters one by one. A pupil has to spend two or more years accumulating a vocabulary, a process of memorizing the shape, number of strokes and sound of each character in addition to its meaning, before he or she can read or write.

When this reporter visited a primary school in Jiamusi City, Zhou Yuqing, the school master, asked three grade three pupils at random from an experimental class to read an article. Though the article was high school level, all three pupils read the article fluently.

The provincial education commission conducted a Chinese examination for grade three experimental classes and ordinary grade five classes in Jiamusi City, Nahe and Baiquan Counties. The scores for the six experimental classes were better than those of the ordinary classes though the latter had spent two more years at schools, according to local authorities.

The conventional method cannot satisfy the children's desire for learning, delays the development of children's intelligence and their accumulation of knowledge and hampers improvement in the quality of language learning.

Over 3,000 primary schools throughout China began to experiment with the new method in late 1982. Under the new method, pupils are expected to learn pinyin (a phonetic alphabet) first and then read and write characters with the aid of pinyin, according to Li Nan, research fellow of the Heilongjiang Provincial Education College and a member of the team who devised the new method.

Instead of learning Chinese characters by rote memorization, pupils learn the phonetics, structure, meaning, writing, and the correct use of Chinese characters through extensive reading and writing.

The comprehensive training in listening, speaking, reading and writing broadens children's horizons and stimulates their desire to learn. "The more they learn, the more interest in learning they have," Li said.

According to the State Education Commission, by the end of last year, over one million pupils in 30 Chinese provinces, autonomous regions and municipalities had been tutored with the new method.

The new method is popular in all experimental classes throughout China, including the south where there are strong dialects and ethnic minorities who speak different languages.

The experiment has attracted the attention of noted Chinese linguists Wang Li, Lu Shuxiang and Ni Haishu, who have inspected experimental schools and praised the experiment. Veteran revolutionary Hu Qiaomu, a scholar himself, said the experiment in Heilongjiang represented a "great breakthrough."

The experiment has also drawn positive reactions from scholars in Australia, the Federal Republic of Germany, Japan, the United States, Hong Kong, Macao and Taiwan.

Heilongjiang Forum Studies Deng's Book on Literature, Art

SK 2702044890 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 26 Feb 90

[Text] The Propaganda Department of the provincial party committee and the provincial cultural department sponsored a forum on 26 February with the participation

of experts and noted personages from the literary and art circles, studying and discussing Deng Xiaoping's book on literature and art.

During the forum, the participating experts and noted personages held that, in the book on literature and art which he wrote and recently published, Comrade Deng Xiaoping upheld and developed the Mao Zedong Thought of literature and art, pointed out that we should follow the direction of having literature and art serve the people and socialism, and provided a favorable ideological system for the literary and artistic front to direct literary and artistic review and evolution. They also expressed that efforts should be made to look for guidance to Deng Xiaoping's book on literature and art, to uphold the four cardinal principles, and to produce more and better works to make the province's literature and art further flourish and develop.

Attending and addressing the forum were leading personnel, including Zhou Wenhua, deputy secretary of the provincial party committee; Qi Guiyuan, member of the provincial party Standing Committee and director of the propaganda department; Huang Feng, vice governor of the province; and others.

Anhui-Taiwan Cultural, Academic Exchanges Increase

OW2002125090 Hefei Anhui Provincial Service
in Mandarin 1100 GMT 10 Feb 90

[Text] Cultural and academic exchanges between Anhui Province and Taiwan increased in 1989.

Suzhou City held exchange activities between college students across the Taiwan Strait for the first time in April 1989. In May, Ms. Wu Ching-hsien, Taiwan's famous singer and leading actress of the television series *The Stars Know My Feelings*, visited her relatives in Hefei and Wuhu, exchanged views with Anhui's literary and art circles, and expressed her willingness to return and hold concerts in her home province at an appropriate time.

In July, an assistant researcher of Taiwan's Academia Sinica took a special trip to Hefei to discuss Anhui's present economic development with his counterparts from the Anhui Provincial Academy of Social Sciences and Anhui University. In August, a seven-member delegation from Taiwan's Research Society for Mainland Children's Literature visited Hefei on invitation to attend an Anhui-Taiwan meeting to exchange experience in children's literature.

In October, Taiwan's famous actor Ling Feng and three others visited Hefei, Jiuhuashan, Wuhu, and Huangshan to shoot special episodes on Anhui in the television drama *The Clouds and the Moon Along the 8,000-Li Journey*.

The cultural and academic exchanges between Anhui and Taiwan over the past year were successful. Taiwan compatriots say that the exchanges enhance understanding and promote good feelings and friendship between Anhui and Taiwan. They pledge to make further efforts to promote exchanges in various fields.

Campaign for Vice President 'Intensely Competitive'

900N0423A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 8, 19 Feb 90

[Article by Zhong Wen (6945 2429): "The Highly Scrutinized Battle for Taiwan's Vice Presidency"]

[Text] On 31 January, the Standing Committee and the chair group of the Central Evaluation and Discipline Commission of the Kuomintang (KMT) each passed a resolution unanimously endorsing Li Teng-hui to run for the eighth "presidency." At that point, the competition for "vice president," who had not yet been chosen, intensified immediately. For several days in a row, the various parties involved have been "beating the gongs and banging the drums," and have engaged in furious activity to build up support. The media have whipped up wind and waves, and the most intensely competitive internal KMT election in the 40 years since the party moved to Taiwan has gotten underway.

Throngs of Worthies Stir to Action; Two Factions Compete

After a period of maneuvering and backstage skirmishing, the many people with thoughts of running for the vice presidency have gradually moved into the light and have entered the stage of intense close-range combat. In this unprecedented struggle, the factions of Li Huan and Chiang Wei-kuo have the most power.

People have seen that the pro-Chiang forces have been the most active throughout the whole affair. The mainstays of this power bloc include Teng Chieh [3326 0267], (the old military leader and "commander of the pro-Chiang camp"), Yang Tse-tsu [7346 3419 3320] and Ti Tsung-t'ao [5049 1350 3447] (the two-power faction), and Yang Kung-mai [2799 0361 6701] (the secretary general of the KMT National Assembly). They circulated a petition in the "National Assembly" to draft Chiang Wei-kuo to run for vice president and busily lobbied delegates to the National Assembly. They are said to have gained the support of over 200 people. Buoyed by his supporters, Chiang Wei-Kuo is brimming with confidence, and has public indicated his willingness to run. He said, "If I were the vice president, it would be much easier to express my opinions at the highest levels." He also stated personally that 287 "National Assembly" delegates had signed the petition to support him, thus his will to take up the fight spilled over into his pronouncements.

Elsewhere, the pro-Li (Li Huan) forces appear equally strong. Li's major supporters are mostly "senior National Assembly" delegates from northeast China, such as Ma Kuo-ch'ing [7456 0948 0615], Liu Hsin-huang [0491 1800 4106], and also include the "supplemental National Assembly" delegate, Weng Ch'un-cheng [5040 4783 2973]. Not long ago, these forces became worried that there was no guarantee that their men's chances might not be seriously damaged in a short period of time (because of a joint attack by Li Teng-hui and Song Ch'u-yu [1345 2806 3842]), and they began to drum up support for Li Huan much more aggressively. In mid-January, Li Huan surprised everyone by delivering a "secret letter" to Li Teng-hui in which he recommended Ch'iu Ch'uang-huan [6726 0482 3562] and four other candidates for "president of the Executive Yuan" and announced he would not serve another term at his current post. The implied message was that he wanted Li Teng-hui to consider choosing him as vice president. Soon thereafter, the news media reported that Li Teng-hui had chosen Li Huan as his running mate. The wishful creation of this news, coupled with the great clamor in the news media, served on the one hand to warn Chiang Wei-kuo that he need not put up a fight any longer; on the other hand, it was an attempt to present Li Teng-hui with a fait accompli and leave him no alternative but to walk into a trap.

A Bystander Attempts To Gather the Spoils

The candidate for vice president is supposed to be freely chosen by the president. The thing that leaves people

scratching their heads is that Li Teng-hui, after smoothly qualifying as a candidate for president, has studiously avoided the issue of the red-hot competition for the vice presidential candidacy. He has maintained silence and is unwilling to indicate his leanings. People have no idea whether this is because he knows exactly what he wants to do, or because he has some secret difficulty of which he cannot speak.

When one surveys the list of candidates for vice president from years past, one discovers that the vice presidents, who serve as running mates to the president, have generally been people who scrupulously avoid overstepping their bounds, maintain a low profile, and pose no threat to the president himself. It is precisely as the old proverb says: "When you use someone by not using him, he is useful indeed." Such was the case when Chiang Kai-shek teamed up with Yan Chia-kan [0917 1367 3227] and Chiang Ching-kuo paired himself with Hsieh Tung-min [6200 2639 7036]. Why would Li Teng-hui not hope for the same? However, this type of choice, so suited to the wishes of the president, is available only if the president stands head and shoulders above the crowd. Li Teng-hui's popular support and his authority are indisputably much weaker than what father and son Chiang controlled. That Li was able to appear on the political stage at all was due to Chiang's patronage. All around him were many people with sufficient experience to challenge him, and some may have outmatched him. Today, these people appear on the surface to respect Chiang Ching-kuo's "final order," and dare not challenge him openly, but they are restive, and there are those waiting for a chance to sally forth. Li Teng-hui is fully aware of this situation.

Under such circumstances, he could absolutely not afford to rashly pick his own man too early. Rather than rush a decision, he was better off to wait and watch—to sit on the wall and observe while the various factions fought it out. This was definitely an advantageous choice for him. For this reason, it was not until the special plenary session of the Central Committee that he nominated Li Yuen-ts'u [2621 0337 4662] as his vice presidential running mate on 11 February.

Who Will Take the Prize? Still a Riddle

However, it is still a riddle as to whether Li Teng-hui will get his wishes.

In the "National Legislature," the various factions of "senior delegates" have recently been up to all sorts of new tricks to help their candidates. Although the pro-Li (Li Huan) and pro-Chiang (Chiang Wei-kuo) forces have not yet shaken hands and made peace, skirmishes between them have declined noticeably, and there are frequent reports of contact between the two sides. Even though these contacts may to a certain extent be a matter of each side probing the other's true intentions, the question of whether both parties will yield a step and reach a compromise has become a matter of intense scrutiny. At this unusual juncture, it would naturally be

advantageous to Li Teng-hui if these two forces were to counterbalance each other in the "National Assembly." People close to Li Teng-hui have stated bluntly that, although the "senior National Assembly delegates" were advanced in age and physically infirm, their minds had not left them, and that they were, on the contrary, "becoming more and more mentally acute." The thing that most worries Li Teng-hui is that if these "senior National Assembly delegates" give an obedient and obsequious appearance in public, while swearing a private oath of loyalty and turning against him when a battle nears, he could be badly bruised. Everyone knows that Li Huan and Chiang Wei-kuo both wield a significant amount of clout in the "National Assembly." The figures indicate that the supporters of Li Huan and Chiang Wei-kuo in the "National Assembly" come to a combined total of not less than 300. When the time comes, a total of approximately 720 people will participate in the voting. If Li Huan and Chiang Wei-kuo were both excluded from candidacy, it could cause them to unite and strike back, and the results of that are hard to predict.

Even after a slate of candidates has been brought forth within the party, that will not end the struggle between the various factions. On the contrary, it will reach a new level and will be forced into a final, decisive battle. Currently, what carries the most practical significance is the fact that the Chiang forces claim that more than 200 "National Assembly delegates" have signed the petition in his support and that the number is still climbing. If it this figure has been inflated, it still cannot be lower than 100. According to regulations, any candidate who is supported by a petition signed by more than 100 "National Assembly delegates" enjoys the same status as the candidate chosen in plenary session of the Central Committee, and can be voted for directly. This indicates that if the candidate chosen during the recently concluded plenary session of the Central Committee does not turn out to be Chiang Wei-kuo, and Chiang Wei-kuo is unwilling to bow out, the possibility of a very rare occurrence—two vice presidential candidates at the same time—exists. Under these circumstances, it is not only unlikely that the vice president would be elected with a high number of votes; it is also possible that the election could be "aborted." It is beyond doubt that now, without a strongman in Taiwan's politics, it is not Li Teng-hui but the "National Assembly delegates," with their control of 720 electoral ballots, who really control the selection of the vice presidential candidate.

The time remaining before the election is growing shorter. We must watch keenly to see who in the end will emerge from the intense competition as vice president.

Mainland, Taiwan Scholars To Meet on Chinese Medicine

OW1702184390 Beijing XI' HUA in English
1315 GMT 17 Feb 90

[Text] Fuzhou, February 17 (XINHUA)—The 1990 seminar on traditional Chinese medicine between the

Chinese mainland and Taiwan will open April 10 in Fuzhou, capital of east China's Fujian Province.

Sponsored by the Fujian College of Traditional Chinese Medicine and the Fujian Provincial Association of Traditional Chinese Medicine, the meeting will be the third of its kind since 1987.

The coming meeting will be on a larger scale than the first two, with about 60 experts from Taiwan attending. There is expected to be a broad exchange of views on the application of traditional Chinese medicine; combination of Chinese and Western medicines; qigong (a system of deep breathing exercises); acupuncture, moxibustion and massage.

Meanwhile, the province is planning to set up an academic exchange center between Fujian and Taiwan and an international training center of Chinese traditional medicine.

Taiwan Compatriots Federation Discusses Reunification Work

OW 2102123290 Beijing XINHUA Domestic Service in Chinese 1442 GMT 17 Feb 90

[By reporter Wang Chi (3769 3589)]

[Text] Beijing, 17 Feb (XINHUA)—The third meeting of the Third Council of the All-China Federation of Taiwan Compatriots closed in Beijing this afternoon.

On behalf of the United Front Work Department of the CPC Central Committee, Wan Shaofen, deputy director of the department, extended warm congratulations on the successful conclusion of the meeting. In her speech, she fully affirmed the work of the federation, a mass organization, in implementing the party's principles and policies on Taiwan. She said that we should realize the development of a situation on both sides of the Taiwan Strait that is favorable to the motherland's peaceful reunification, as well as the existence of factors delaying, obstructing, and opposing reunification. She urged the federation to continue to use its advantages to more extensively unite the compatriots on the mainland, in Taiwan, and overseas in making still greater contributions to national reunification and prosperity.

Lin Liyun, president of the federation, made the closing speech.

During the four-day meeting, members of the council earnestly discussed a report summarizing the federation's work in 1989 and outlining the tasks for 1990, exchanged experience in carrying out the federation's work in various localities, and offered valuable views and suggestions for motherland reunification. They said that, in view of the changes in Taiwan, the federation should carry out its work with a clear objective in mind, so that Taiwan compatriots inside and outside Taiwan can really understand the motherland's policy of reform and opening to the outside world, as well as the consistency of the principles and policies concerning "peaceful

reunification" and "one country, two systems," thereby enhancing the common understanding and unity between compatriots on the two sides of the ... it.

KMT Revolutionary Committee Discusses Taiwan

OW 2102125590 Beijing Domestic Service in Mandarin 1030 GMT 18 Feb 90

[From the "National Hookup" program]

[Text] The second plenary session of the Revolutionary Committee of the Chinese Kuomintang's Seventh Central Committee ended in Beijing today. The meeting unanimously endorsed the CPC Central Committee's opinions on the system of multiparty cooperation and political consultation under CPC leadership.

Participants of the meeting agreed that the system was born and developed over the years in China's revolution and construction. They added that it was a product of association between Marxism and China's realities, and a fundamental political structure suiting China's national conditions. They noted that studying, publicizing, and implementing the CPC's document in this respect would occupy the committee for some time to come.

The meeting urged the committee's organizations at all levels to acquaint themselves with reality, mingle with the masses, stress investigation and study, reflect the people's opinions and requests, protect the legitimate interests of party members, and further develop the committee's democratic role. It observed that Taiwan's situation is evolving in a way conducive to reunification of the motherland, and billed the development an irresistible, historic trend. The meeting expressed strong opposition to any attempts to create two Chinas or one China and one Taiwan, as well as efforts to divide the motherland. It voiced the hope that the Kuomintang in Taiwan would follow Sun Yat-sen's teachings, assess the prevailing situation of the times, accommodate public wishes, cease creating artificial barriers to the normal development of relations and friendly exchanges between the two sides of the Taiwan Strait, and make sensible policy decisions at an early date to facilitate reunification of the motherland.

Qu Wu and Zhu Xuefan, respectively honorary chairman and chairman of the Revolutionary Committee of the Chinese Kuomintang Central Committee, attended the meeting. Vice Chairman Hou Jingru presided and delivered a closing speech.

CPPCC, United Front Meet Taiwan Unification Group

OW 2102130890 Beijing XINHUA Domestic Service in Chinese 1429 GMT 18 Feb 90

[By reporters Xue Jianhua (5641 1696 5478) and Niu Changzheng (3662 7022 1767)]

[Text] Beijing, 15 Feb (Xinhua) Ap—Members of a visiting delegation of Taiwan's "Alliance for the Reunification of China" today separately held seminars with relevant officials of the National Chinese People's Political Consultative Conference (CPPCC) Committee and the CPC Central Committee's United Front Work Department.

The delegation arrived in the CPPCC's auditorium this morning and held a seminar with members of the CPPCC's Committee for Reunification of the Motherland (CRM). Delegation head Mr. Chen Yingchen (Chen Yingchen) expressed heartfelt thanks for the enthusiastic welcome his delegation had received everywhere during the past few days.

Mr. Chen called on people on both sides of the Taiwan Strait to create conditions, exchange views, and discuss plans for China's reunification and pertinent problems through non-governmental channels. He added that the more the openings for dialogue, discussion and exchanges, the better, because they could promote exchanges across the Strait.

Cheng Siyuan, vice chairman of the National CPPCC Committee, attended today's seminar. After extending a warm welcome to the delegation, he gave an account of his committee's history, character, and other relevant information. CRM members voiced their opinions freely in response to questions posed by the delegation on multiparty cooperation and participation by democratic parties in government and political discussion under the CPC's leadership.

The delegation arrived at the Central United Front Work Department in the afternoon and held a seminar with the department's leaders and relevant officials. Deputy Director Wan Shaochen briefed the guests on the department's operations and work. Department officials answered questions by the delegation on the building of democratic parties, policy on intellectuals, religion, and other matters of interest to the delegation.

After the seminar, relevant officials of the department hosted a banquet for the delegation.

Support of United States Called For in Bid to Join GATT

*SHENHUA Taipei CHINA CHU HUI PAO in Chinese
6 Jan 90 p. 2*

[Editorial: "Call for Active United States Support for Taiwan's GATT Membership"]

[Text] A few days ago, the Ministry of Economic Affairs announced that Taiwan had formally presented a request for membership in the General Agreement on Tariffs and Trade (GATT), and had immediately delivered notes to major countries concerned such as the United States. Speaking about how soon the request might be acted on, Ministry of Economic Affairs spokesman Wang Chien-huan (3769 1696 3551) explained that this should not be commented on out of consideration for the national interest. He did say, however, that obstacles to Taiwan's participation in GATT were primarily "political" in nature. On the basis of the past experience of various countries in applying to join GATT, because of the lengthy procedures involved, membership could take half a year at least, and as long as 1 or 2 years. We understand, however, that in July 1986 the mainland Chinese Communists formally applied for entry into GATT, but the application is still in the consultation stage three and one-half years later. Clearly, no uniformity exists, the situation varying greatly according to the circumstances of each requesting country. Consequently, in presenting the request, the government emphasized solely the economic significance of GATT membership, requesting entry on the basis of the independent tariff zone of "Taiwan, Penghu, Chinmen, and Matsu."

Just what advantages does participation in GATT hold for Taiwan's economy? As I see it, the main positive economic significance is as follows:

1. Enjoyment of most favored nation treatment. Since Taiwan has had a huge favorable balance of trade with the United States in recent years, and inasmuch as Taiwan has promised to abide by the spirit of the GATT agreement in trade talks with the United States, it will immediately and unconditionally receive the same preferential treatment that the United States accords to other GATT member countries. As a non-GATT member state, Taiwan is unable to get the most favored nation treatment that other countries enjoy. This one-sided most-favored nation treatment is extremely unfair for Taiwan, and once Taiwan becomes a GATT member, this one-sided and unfair most favored nation treatment can be avoided.

2. Expansion of the scope of trade. After joining GATT, Taiwan will be able to enjoy unbiased treatment. It will be possible to hold a competitive position as equals with major trade partners in competition such as Korea and other newly industrialized countries, thereby bettering the international competitiveness of Taiwan's export products, helping open new markets, and reconciling regional trade imbalances.

3. Mediation of harmonious economic and trade relations. When trade disputes arise with trade adversaries, opportunity for bilateral consultations will be afforded, or GATT will mediate to allay trade frictions and remove illegal and unreasonable demands or threats from adversary countries. Membership will insure national economic sovereignty, safeguard firms' legal rights and interests, and promote harmonious international economic and trade relations.

4. Open channels for bearing international economic responsibility. Once Taiwan's economic and trade strength increases, the government intends to do more about international economic and trade responsibilities, helping other developing countries solve economic and trade problems. However, since Taiwan has few formal allies, and since it is out of most international economic organizations, even though numerous countries want our support, unfortunately there are no channels for giving it. Joining GATT should solve this difficulty.

Thus, one can see that GATT membership will not only help our economy, but will also help solve the world's current foreign debt and unbalanced trade problems. Nevertheless, international political factors also cannot be ignored. In particular, the Chinese Communists have raised two demands with regard to our GATT membership as follows. The first is that Taiwan may become a GATT member only after the Chinese Communists have become a member. The second is that Taiwan's entry into GATT must be agreed to or requested by the Chinese Communists. We positively cannot agree to these two points, nor should GATT member countries accept such threats. This is because GATT regulations provide that all member nations on the council must agree to accept an application to join as the first obstacle to be hurdled to go on to the next procedure for membership. If the Chinese Communists join first, it will not be difficult for them to become a member of the council (inasmuch as mainland China has a large land area and population). Then, when we apply, we will be completely under their control. If we do not accept their coercion, we will not likely be able to join GATT. Therefore, now is the time for us to apply for membership. The Chinese Communist's second demand is based on article 26 of GATT regulations as follows: "Newly independent countries that were formerly a colony of a member are to become GATT members with a declaration of approval by their former suzerain country." However, Taiwan has applied for membership in GATT under article 33 of GATT regulations as the government of an independent tariff zone, and is not subject to the limitations of article 26. This should be a workable way of eliminating Chinese Communist interference.

Nevertheless, although Taiwan has applied to join GATT on purely economic grounds, admittance procedures are extremely complex. Bilateral talks among member countries will still have to be conducted on compromises and non-tariff measures. Since Taiwan has greatly reduced tariffs in recent years and has made positive efforts to spur liberalization, this should be no

problem in negotiation. However, in view of the various destructive factors of the Chinese Communists, if we are unable to obtain the agreement of two-thirds of the GATT nation membership when the time comes, it will be difficult to become a member. Although all government departments are working actively to win over the countries concerned, most of the answers they receive are "optimistic about success," meaning they will take no initiative. Unless we gain the positive support of major economic powers, getting two-thirds of the countries to approve will be an easy matter. The United States is our largest trading partner. In the past, the United States stressed that it made no sense to exclude China, with a population of 1 billion, from the United Nations, and that to do so was a great international loss. Therefore, we should advise the United States sincerely that we are the world's 14th largest trading nation whose total trade figure for 1989 was \$120 billion. For us not to be able to join GATT would be an even greater loss for the world, not to mention that we are actively seeking ways to carry out international responsibilities, working jointly with industrialized countries to promote free trade and help solve international economic problems. We sincerely hope that the United States will take a positive attitude and call out from the heights for support for Taiwan's smooth entry into GATT from which the whole world will benefit.

Editorial Reexamines Investment in PRC

Specialized Taipei Times (TUN HUI PAO) (UNITED DAILY)
N. H. N. in Chinese, 25 Jan 90 p. 2

[Commentary: "Reexamining the Mainland Investment Mania"]

[Text] When news leaked that the Taiwan Plastic Company was actively investing in the mainland, the sensitive issue of investing in the mainland once again triggered sensitive reaction. Whether the government will change its mainland economic and trade policies and what the possible political and economic fallout will be are of general concern and have become the topics most discussed in the ruling party's regular sessions.

Taiwan-mainland economic and trade statistics are incomplete; there are many discrepancies in the reports we have and rumors we hear, and it is still very difficult to ascertain the economic and trade relations and the development of those relations between the two shores, but the statistics and information on their indirect trade show a continuous and significant increase in the export of machinery from Taiwan to the mainland in the 1980's, and we can deduce that Taiwan's investments in the mainland to a very large extent have been long-term investments. Therefore, when we examine the mainland investment issue, we must first examine the factors that led to the growing investments before we examine their political and economic consequences. Simply put, we must separate the elements that create an internal push

from those that constitute an external pull when we analyze the reasons behind the growing investments in the mainland.

The internal push is the most important factor. Surplus savings has become a prominent phenomenon in Taiwan in the 1980's. People must find suitable outlets for their money outside of the country in order to avoid the kind of economic and financial crisis triggered by the excess money supply. In particular, because of the huge increase in surplus savings in the latter part of the 1980's, such internal pressure was mounting. If we look carefully at the reasons behind the huge surplus savings, besides the people's hardworking and thrifty nature, we must consider the deteriorating domestic investment environment—this includes the restrictions imposed on investment opportunities and the general lack of willing ness to invest. These noneconomic factors can be mitigated only by readjusting the system and the policies, which will take time. Therefore, in the immediate future, the existing surplus savings must find the most efficient outlet in the foreign countries.

External pull refers to the external conditions that attract Taiwan's money. Considering Taiwan's existing industrial structure, technological standard, and the amount of money she has, her foreign investments should concentrate in the developing countries, and Taiwan businessmen have been very active in several Southeast Asian countries in recent years. Compared to those countries, and despite the non-economic obstacles, mainland China offers some exceptional attractions. First, China's 1 billion people make up a large market and a huge, cheap labor force; second, because of the social and cultural factors, Taiwanese businesses believe that they can establish roots in the mainland better than enterprises from any other country. In addition, because of the CPC's united front tactic, Taiwan's mainland investments will be able to keep pace with her other foreign investments.

Generally, every country should examine the positive and negative effects of its foreign investments. On the positive side, because of limited labor and natural resource, as the economy develops, some industries will eventually become sunset industries. If these industries are moved overseas, it can reduce the pressure on the domestic resources or even leave more room in the market for the country's mid- and up-stream industries. This will benefit the country's long-term economic development. On the negative side, some labor intensive-type industries have always been the main producers of export goods during the country's economic development. As more and more of these industries are moved overseas, some worry that there will be a void in the industrial sector. Looking back at the days when masses of Japanese businessmen were investing in Taiwan, the Japanese also worried about such a void. But when her domestic industrial structure was upgraded, and with the rapid development of international trade and service exchange, the situation ceased to worry Japan. As for Taiwan, purely from the point of

the economic impact, it is a question of how to adapt. If we can make proper adjustments, there will be plenty of net benefits.

But there are other factors we must consider when we invest in the mainland. Whether Taiwan and the PRC see each other as antagonists or competitors, using Taiwan's surplus funds to remedy the mainland's lack of funds will necessarily promote the latter's industrial development. While this move will help raise the mainland people's living standard, it will also turn the mainland into Taiwan's competitor in the international market, which in turn will adversely affect Taiwan's long-term economic development. More important, investment is very different from trade. Trade involves the exchange of current funds; only small sums change hands, and it is relatively easy to adjust the revenue and expenditure; investment entails installing many facilities in the other country; huge sums of money are involved, and they cannot be moved around easily. If the manufacturers continue to invest heavily in the mainland, as the funds accumulate, at a certain point, the PRC regime can use those funds as a means of coercion and steadily wield more political and economic influence on Taiwan and in turn undermine Taiwan's future.

In fact, since the government cannot object to the manufacturers' investing abroad, it cannot stop the civilian factory owners from resorting to different means to go to the mainland to invest. If this persists, the government eventually will have to pay a price. If it does not want to pay that price, the only solution is to reduce the surplus savings at home and find suitable domestic outlets for much of those funds. This means improving the domestic investment environment. The government should cater to the economic situation at home and quicken the pace of adjusting those policies, provisions, and systems that have to do with investment. Only in this way can we avert the approaching foreign investment crisis and in turn improve Taiwan's industrial structure.

Official Condemns Firearms Smuggling From Mainland

*(U) (U) (U) Taipei International Service in English
0200 (A)T 5 Mar 90*

[Text] Interior Minister Hsu Shui-tek said Saturday the smuggling of illegal firearms into Taiwan over the past three years is the major cause of the worsening social order here. Hsu said from October of last year to the end of last month, police confiscated 7,200 illegal firearms, including more than 600 Black Star pistols from Mainland China. During this period, Hsu said, police arrested more than 11,000 people on their wanted list.

Hsu noted that in Singapore people who are found to have illegal firearms are given death sentences. But here in Taiwan, Hsu said, the government cannot adopt such a heavy punishment because of its consideration for human rights.

Increased Emigration Attributed to 'Worsening' Conditions

*(U) (U) (U) (U) Taipei C.P.A. in English
0247 (A)T 5 Mar 90*

[Text] Taipei, March 5 (CNA)—Applications to emigrate are increasing in the Republic of China on Taiwan, in step with the increasing outward flow of capital.

One emigration counselor stressed, however, that the murky situation on local political scene is not the main reason driving the emigration wave.

Most emigrants, the counselor said, are motivated by the country's worsening living conditions, traffic, education, systems and deteriorating social order.

He urged the government to improve effectiveness in solving these problems for it will help slow the emigration wave.

Tsui Sze-man Interviewed on Hong Kong's Future
WATSON/94 Hong Kong CHING PAO (THE MIRROR)
in Chinese No 150, 10 Jan 90 pp 11-13

[Summary] of interview of Tsui Sze-man (1942-1994), chief of CHING PAO publications, and Lin Wen (2651-2429), CHING PAO editor in chief, by five students from Hong Kong University's National Affairs Study Association: Wen Chieh-ming (2429-3381-2494), Li Pao-shi (7812-3899-3835), Hsieh Yao (6200-7161-1837), Chung Chun-ting (5970-0193-1636), and Lin Ai-kun (2681-5676-5525), 21 December 1989.

[Text] [Students] In mid-December the Basic Law Drafting Committee political structure subgroup meeting in Guangzhou determined that for the first session of the Hong Kong Special Administrative Region [SAR] legislature, its three components, that is, the directly elected, the functionally elected, and those elected by the election committee (the general election group) must not exceed 60 persons in total, of whom those directly elected could not exceed 30 percent, which means the most who could be directly elected would be only 18. How do you regard this decision? Is it possible there will be a change?

[Tsui] The Guangzhou political structure determined that in planning for a political structure they should respect the principle of proceeding in an orderly fashion step by step and the principle of proportionate participation. It did not achieve a program for a final political structure. In mid-January the subgroup meeting will resume the discussion. If there are people who feel that 18 directly elected persons are too few, they can request an increase. However, I think it is inadvisable to go too fast with respect to direct elections. This is because the political organizations, political leaders, and the political awareness of the citizens in Hong Kong are all at the learning stage. One person, one vote is a democratic method. Using it does not mean that everything will go off without a hitch. You see, isn't the Philippine president elected by one person, one vote? Yet since Corason [Aquino] has been in office, six military coup attempts have occurred. Again look at the recent Taiwan general elections. This is a route that has my approval. However, the underworld was involved there was violence, there was bribery. It was all quite serious. This demonstrates that in the initial stages of democracy citizens don't fully understand how to exercise their rights nor do they understand political activity. It was only because the Kuomintang government held effective power and was able to control the overall situation and maintain order that huge disturbances didn't occur. If the political resources in Hong Kong are inadequate and the conditions for elections have not matured, then disturbances could occur. If disturbances were to break out in the initial period of Hong Kong's 1997 return, the newborn Hong Kong SAR would still be quite weak. It goes without saying that the People's Liberation Army, [PLA] would be used to maintain order. It certainly would not be in Hong Kong's interests

to have the PLA involved. Therefore the Philippines and Taiwan should be a warning for Hong Kong. Is the election method of one person, one vote better than steady progress? Of course, ultimately, we also want to achieve the goal of one person, one vote.

[Students] Isn't the Beijing proposal that calls for a 10-year period of stability after 1997 before having direct elections too slow?

[Tsui] Some Hong Kong people want to speed up direct elections. Beijing, on the other hand, is proposing a period of stability. This is a result of the 4 June incident. I think both sides have to calm down a bit and talk things over. I understand the Chinese Communist situation quite well. Their domestic policies are all changing. However, Hong Kong has been stable and its policies have not changed in 40 years. The reason Beijing is advocating a gradual step-by-step sequence for direct elections is to keep Hong Kong stable.

[Students] Hong Kong Government officials say that the number of directly elected seats for the 1991 Legislative Council will be in line with the wishes of the Hong Kong people and that they don't have to wait for the final January 1990 version of the Basic Law political structure model to decide. How do you view this issue?

[Tsui] This is a question of whether they want convergence or not. It would be best if they did. The Governments of China and Britain could discuss how they should converge. If they don't, then after 1997 China will trample the whole thing, and that won't be good. I think there is a tendency for convergence. They're still haggling now. The British side mustn't go to extremes, and the Chinese side needn't be rigid. If they are to achieve convergence. If there isn't convergence, it will not only be harmful to Hong Kong, it will be harmful to both China and Britain.

[Students] Several months after Hong Kong showed its support for the huge Beijing demonstrations by the student protests and democratic movement involving 1 million people, the Guangzhou political structure subgroup meeting added a provision to the draft of the Basic Law to guard against "subversion." Don't you think that this will make Hong Kong people lose even more confidence in 1997?

[Tsui] I don't agree with adding the provision in the Basic Law draft to guard against "subversion." In my opinion, whatever path a country takes is best decided by that country's people in an election, not by subversion. Subversion is not going to succeed. You see, even when the Soviet Union sent troops into Afghanistan, it was still defeated. Vietnam invaded Cambodia. Ultimately, it was defeated. With the United States, it's even worse. They are the gendarme of the world. They meddle in things everywhere. The United States has large contingents of CIA spies in Latin America. In Nicaragua, it was a military scandal, and they didn't succeed. Recently in Eastern Europe, Poland, Czechoslovakia, Bulgaria, and East Germany, one after another experienced a wave of

democratic reform. Was this the result of subversion by the United States and other countries? No. It was the people of the East European countries themselves who rose up and pushed things forward. That's why Beijing's concern about Hong Kong subversion is without basis. Taiwan has a population of 20 million and a military force of 600,000-700,000. The Kuomintang has always wanted to counterattack the mainland and it has mounted many operations. None has succeeded. When Hong Kong's democratic factions shout a few slogans, Beijing gets frightened. It certainly doesn't.

[Lin] I don't think it was necessary for the provision guarding against "subversion" to be added again to the Basic Law draft. First, Article 22 of the draft soliciting opinions on the Basic Law, which was announced in April 1988, originally had the provision concerning the "prohibition of activities subversive to the central people's government." Later, at the suggestion of the Hong Kong drafting committee, Beijing agreed to use "armed rebellion" in place of "subversion." Because of this, Article 23 of the Basic Law draft that was announced in February 1988 had the term "subversion" deleted. Now Beijing is again insisting on adding it, in effect, going back on its word. That will certainly damage their credibility! Second, the Basic Law draft has the provisions of Article 14 concerning the stationing of troops. It has the provisions of Article 18 concerning the Standing Committee of the National People's Congress proclaiming a state of emergency. And it has the provisions of Article 23 concerning the prohibition of activities that split the country and instigate armed rebellion. These are sufficient to firmly control problems with "subversion." Why is it necessary to add the "subversion" wording and stir up the sensitivities of the Hong Kong people? Third, "subversion" ordinarily is actively directed by one country against another. Hong Kong was always Chinese territory, and in 1997 it will return to China. Using the term "subversion" could easily cause people to misunderstand and weaken the Hong Kong people's concept of "one country." Maybe Beijing's legal specialists considered this because Deng Xiaoping gave a speech on guarding against subversion and they had to handle it this way! Of course, what is slightly gratifying to Hong Kong people is that the definition of "subversion" that is given in Article 23 was drawn up by Hong Kong's "own legislature."

[Students] The Chinese said recently that the human rights bill drafted by the Hong Kong Government could not be superior to any other Hong Kong law. Given this kind of talk, how can human rights in Hong Kong be guaranteed?

[Tsui] Internationally, the "Covenant on Civil and Political Rights" and the "Covenant on Economic, Social, and Cultural Rights" can generally be put into effect to guarantee human rights. Paragraph 4, Section 13 of Addendum 1 of the Sino-British Joint Declaration and Article 39 of the Basic Law draft both explain that the "provisions of the two covenants applicable to Hong Kong shall remain in force." Article 39 makes it even

more clear that the applicable provisions "shall be implemented through the laws of the Hong Kong Special Administrative Region." Moreover, the principle content of the two covenants is already set forth in Articles 24 through 38 in Chapter 3 of the Basic Law draft. So you see, human rights in Hong Kong are quite adequately guaranteed. The human rights bill drafted by the Hong Kong Government is based on Paragraph 4, Section 13 of Addendum 1 of the Joint Declaration and Article 39 of the Basic Law draft. However, in drafting with Hong Kong's former laws, Article 8 of the Basic Law draft states that, "with the exception of those which contravene this law or those which have been revised by organs of the legislative of the Hong Kong Special Administrative Region, they will be preserved." According to this provision, the human rights bill cannot be superior to other laws. It will become ineffective after 1997.

What I would like to stress is that whether human rights are guaranteed in Hong Kong after 1997 hinges on the character of the people involved and even more on the political climate of the mainland. If the mainland atmosphere is favorable toward democracy, then there'll be no cause for concern. If not, then there will be. In other words, if the mainland political climate is bad, laws will be difficult to guarantee no matter how detailed they might be.

[Lin] The human rights bill and the "subversion" provision that were mentioned earlier are the same. They are both products of the 4 June incident. If the 4 June incident hadn't happened, the issues would not have gotten this complicated. From a legal standpoint, the human rights bill involves two issues. First is the relationship between human rights bill and Hong Kong's other laws. Second is the relationship between the human rights bill and the Basic Law. As for the first issue, some people are of the opinion that the status of all Hong Kong laws is identical and that the human rights bill should be too. Some people believe that the human rights bill should be superior to other laws in order to properly guarantee human rights. However, this violates Article 8 of the Basic Law draft. Since the Basic Law is Hong Kong's mini-constitution, its future draft constitution, it is obvious that the human rights bill cannot contravene it. Beijing has demonstrated clearly that the human rights bill drafted by the Hong Kong Government cannot contravene the Basic Law and cannot be superior to other laws. As for guaranteeing human rights, since China is not a signatory country to the two covenants, all Britain could do if China does not honor its promise is issue a protest. Therefore, as Mr. Tsui just pointed out, we not only must see whether the laws are adequate or not, we must also see whether the mainland is moving toward a democratic rule of law or not.

[Students] Britain announced today that it is giving 225,000 Hong Kong people right of abode in Britain. Will this increase Hong Kong people's confidence in 1997, cause them to become divided, or exacerbate their crisis of confidence?

[Tsui] The right of British abode is not the best way of resolving the problem of Hong Kong's people's confidence. Giving a portion of Hong Kong people right of abode is not fair, and will inevitably cause splits in various circles. No matter how you look at it, Britain absolutely did not do this for the benefit of the Hong Kong people, but strictly for Britain's own interests. First, Britain expects that by giving some the right of abode, it will help maintain its influence in Hong Kong after 1997. Second, Britain hopes that not all of Hong Kong's best talent will go to other countries, such as the United States and Canada. This was Britain's contradictory state of mind when it granted right of abode to a portion of Hong Kong people. It goes without saying that every country has very strict approval procedures for accepting immigrants. However, Britain easily granted the Hong Kong people right of abode. It is obvious they are motivated mainly by their own self-interest. However, the British technique is brilliant, like the master conjurer who feints to the east but attacks to the west. It can be said that in giving right of abode to 225,000 Hong Kong people, Britain is "skimming off the cream." If other countries such as the United States and Canada follow suit, then the total number of people in Hong Kong holding foreign passports could reach 600,000 or 700,000. But, even if it is only 500,000, that means that almost all of Hong Kong's best talent will be snatched away. Under such circumstances, the people running Hong Kong won't be Chinese, and loyalty becomes a problem.

Faced with the present political climate, people can't be critical of those in Hong Kong who would like to emigrate. However, for those who are thinking of staying, they have to be willing to take something of a chance. Since it is taking a chance either to stay in Hong Kong or to emigrate, I think that, when you weigh the advantages and disadvantages, it is better to take your chances by staying in your own place.

[Students] In a recent news report, a Taiwanese said that, if Taiwan were to revert to China, as a Taiwanese, he would feel humiliated. After 4 June many people in Hong Kong lost confidence in the mainland and some had feelings similar to the Taiwanese. How do you feel about this?

[Tsui] As a Chinese there are responsibilities that have to be undertaken. During the past 40 years, the Chinese Communists have done a great number of terribly disappointing things. How Hong Kong will far, under the future administration and control of the Chinese Communists is worrisome. I too have thought of leaving. However, I also realized that, as a Chinese myself, I had to assume the responsibility of staying in Hong Kong during a difficult time for the country. This is why, when I travel to Beijing every year to take part in the meeting of the Chinese People's Political Consultative Conference (CPPCC), I frankly state my criticisms and suggestions. If next year the CPPCC allows me to speak, I will go again. If it won't allow me to speak, I won't go. If I go to Beijing to speak and violate their taboos and they grab

me and don't let me come back to Hong Kong, then that's my own doing. Being a Chinese and working for the interests of the country and the people must entail responsibilities. It would be difficult for me to explain if I didn't assume any responsibilities and didn't undertake any risks. Hong Kong is a free society. If someone wants to leave, he can do as he pleases. We can't force him to stay. However, I've always felt that, as a Chinese and in the interests of the country and the people and in the interests of Hong Kong, there would be responsibilities to undertake and risks to assume.

Status, Outlook for Economy in 1990

South China Morning News/HK CINA 10 in Chinese
14 Jan 90, p. 1

[Article: "Hong Kong's Economy During the Readjustment Period"]

[Text] This newspaper's Hong Kong correspondent have reviewed and analyzed Hong Kong's economy during the past year in terms of overall development, finance and banking, trade and tourism. They conclude that the consequences of the overheating of Hong Kong's economy during the past several years have not yet markedly abated. Furthermore, the economy has been restricted by adverse external environmental factors. Hong Kong's economy encountered numerous challenges during 1989 such as an increase in inflationary pressure, a labor shortage, a rise in factory and business operating costs, a flagging export trade, a deceleration of trade finance capital, repeated fluctuations in the stock market, and a slide in tourism, maintaining only a slow speed of growth. Even though adverse factors inside and outside Hong Kong cannot be eradicated very quickly in the new year, Hong Kong's economy will not stagnate, but will maintain the level of growth of 1989.

Marked Slowing of Overall Economic Development

Correspondent Chen Xiaopin [7115 2596 1755] Not long ago, Hong Kong Department of Finance authorities lowered from the former six percent to three percent their most recent economic growth rate forecast figures for 1989. Some Hong Kong economists feel that the authorities' forecast is too pessimistic, and that prospects are actually for a five percent growth in Hong Kong's economy. Even so, by comparison with the previous three years, this represents a marked slowing of Hong Kong's economic development.

A look at the internal environment in Hong Kong shows a double-digit rate of economic growth during 1986 and 1987. This exceeded the limit that Hong Kong's economic resources can sustain and led to an overheating of the economy, with an intensification of inflation, a labor shortage, and a rise in store, shop, and factory rents. Hong Kong's economic growth began to slow in 1988, the growth rate declining to 7.4 percent, evidencing the entry into a period of readjustment for Hong Kong's economy. However, as of 1989 the consequences of the overheating of the economy had not fully abated. The

inflation rate was close to 10 percent, and factory rents remained high, causing a rise in factory and business operating costs that hampered development. Thus, the continued slowing of Hong Kong's economic growth during 1989 was expected.

Hong Kong's economy is an almost completely export-oriented economy, so it is subject to the limitations of the external environment to an extremely great extent. A look at the external environment also shows that Hong Kong encountered various disadvantageous conditions. Although the economies of European and American countries did not sink into a new round of decline, they were coming to the end of the line after a long period of expansion. Demand for Hong Kong commodities was waning. In addition, the Hong Kong dollar began to strengthen along with the United States dollar, and Hong Kong was increasingly subjected to a pounding from the protectionism of European and American countries. Hong Kong's exports faced greater difficulties. A comparison of the period January through October 1989 with the same period in 1988 showed only a one percent increase in exports to the United States of local Hong Kong products, and a four percent decline in exports to the United Kingdom, West Germany, and the Netherlands. Inland China was Hong Kong's most important trading partner, and the economic retrenchment policy instituted in inland China beginning in 1990 [as published] adversely affected an increase in the trade of both parties.

Most Hong Kong economists remain optimistic about the medium-range outlook for the Hong Kong economy. They believe that another upsurge will occur during the mid-1990's with the prospect of maintaining a slow speed of growth. The present situation suggests that the various internal and external factors that created a slowing of Hong Kong's economic growth during 1989 will not change fundamentally during 1990, and estimates call for only a level of growth close to that of 1989.

The large scale investment of Hong Kong firms in plants in inland China was one of the major reasons for the high speed development of Hong Kong's economy in recent years. Economic retrenchment in China during 1989, the shortage of supplies of energy and raw and processed materials, a rise in workers' wages, and foreign importers' fears that on-time deliveries of export commodities processed in inland China could not be guaranteed required Hong Kong businessmen to relocate their production. Hong Kong firms began to become interested in investing in the establishment of factories in Southeast Asia. However, the political disturbances in Beijing did not have any real adverse affect on Hong Kong firms' production in the Zhu Jiang Delta. China's leaders also repeatedly emphasized continuation of the policy of reform and opening to the outside world, and Hong Kong businessmen continued to maintain their scale of production, investing in the building of plants inside China. Recently the tremendous devaluation of the renminbi against foreign currencies enabled Hong Kong businessmen investing in the building of plants in

China to decrease wages paid to workers in China, which are figured in Hong Kong dollars, and raw materials procurement costs. Investment in inland China will become more attractive to Hong Kong investors. Nevertheless, some Hong Kong businessmen also explain that since their wage bill accounts for only approximately 10 percent of production costs, and since most Hong Kong businessmen have always exchanged renminbi at foreign exchange readjustment centers or on the black market, the actual benefit gained from a devaluation of the official price of renminbi is not as great as one might imagine. Consequently, while they continue to invest in inland China, Hong Kong businessmen will also increase their investment in Southeast Asia.

Prospect of a Complete Recovery of Hong Kong's Tourism During 1990

Correspondent Shi Xiaofan [0670 2356 1581]: Tourism, one of the three main pillars of Hong Kong's economy, did well during 1988, the number of tourists coming to Hong Kong increasing by 24 percent. It also did well during the first several months of 1989, but the number of tourists decreased continuously for several months beginning in June. Despite a gradual rallying after September, negative growth is expected in the number tourists coming to Hong Kong during 1989 for the first time in 18 years, the number declining by approximately five percent.

Statistics from the Hong Kong Tourist Association show that more than 24.11 million tourists came to Hong Kong during the first 5 months of 1989, up 14.7 percent from the same period in 1988. However, following the political disturbances in Beijing, many people held back from traveling to Hong Kong or going to inland China via Hong Kong. As a result, the number of tourists entering Hong Kong during June, July and August fell by an average 10,000 each month. As the political situation in China stabilized, the number of tourists entering Hong Kong began to rally in September. Nevertheless, the most recent statistical data show a total of 44.685 million tourists came to Hong Kong during the first 10 months of 1989, 3.7 percent fewer than during the same period in 1988. The number of tourists from Taiwan, Japan, the United States, and Canada declined substantially during September, but the number of tourists from South Korea increased tremendously.

The decline in the number of tourists also adversely affected hotel room rentals. Hotel room occupancy rates for June through September 1989 were 76, 71, 72, and 76 percent, but during the same period in 1988, they were higher than 90 percent. By October, they had climbed back to 81 percent, but this was still substantially below the 98 percent level for the same period in 1988.

Relevant data also show a trend toward increase in the total amount of foreign tourist spending in Hong Kong during 1989. During January through September, total spending amounted to HK\$25.94 billion, up 11.8 percent from the same period in 1988. Therefore,

Hong Kong's total earnings from tourism during 1989 were still higher than during 1988.

In addition, current reservations show that Hong Kong tourism will fully revive by August 1990. Expectations are that the number of tourists entering the territory will be no fewer than in 1989.

Finance and Banking Put to a Test

Correspondent Shi Xiaofan: For Hong Kong's finance and banking industry, 1989 was not a year of smooth sailing. The slowing of the local economy, and changes in the external economic climate put the finance and banking industry to the test. Nevertheless, facts show that these events did not shake the position of Hong Kong as an international financial center by any means.

During 1989, economic development of Hong Kong's main trading partner, the United States, slowed, and consumer expenditures softened. Another one of Hong Kong's important trading partners, inland China, instituted a policy of economic retrenchment, and the competitiveness of Hong Kong products in international markets declined as a result of a rise in the value of the Hong Kong dollar. All these events adversely affected Hong Kong's imports and exports, as well as internal demand. This was reflected in the banking industry where the speed of increase in trade finance capital showed marked decline, slowing from 35 percent in 1988 to 20.7 percent in October 1989. However, both local loans and foreign loans maintained a speed of increase close to that of 1988, increasing by 30 and 25 percent respectively (versus 29 and 22 percent in 1988). Total banking industry loans increased 27 percent over 1988, not greatly different from the 30 percent increase of 1988 over 1987. This reflected the continued vigorous demand of some Hong Kong businesses for funds, and it also explained the continued development of the Hong Kong overseas banking industry. In 1989, the number of registered Hong Kong banks increased from 158 to 166, intensifying competition in the banking industry. This also forced banks to make steady improvements in service and to develop new business.

Yet another aspect of the Hong Kong financial and banking industry—the stock market—also met serious challenges during 1988. In early 1989, the stock market made a good showing. Spurred by a strong Hong Kong economy and overseas stock markets, not long after entering the year of the snake, the Hang Seng Index broke the 3,000 mark, which people term the "psychological barrier." During the succeeding four months, the Hang Seng Index climbed to 3,300. However, as a result of the disturbances inside China, in late May the Hang Seng Index plunged, shedding 30 percent in two months, the highest daily plunge being more than 580 points. After gradually stabilizing, in mid-October, the market again fell by more than 180 points, echoing the plunge of the American stock market. However, experts maintain that the reversals in the Hong Kong stock market stem primarily from factors outside Hong

Kong. Generally speaking, market reaction was calm showing that the Hong Kong stock market had peaked. During 1989, also instituted a series of reforms having to do with operations and control. The soon-to-be instituted shareholder rights disclosure law, insider trading regulations, and a central settlement system, will help improve efficiency and increase transparency of the Hong Kong stock market.

Complete Slowing of Hong Kong's Foreign Trade During 1989

Correspondent Zhong Liping (6945 7787 8825): In reviewing Hong Kong's trade during 1989, Hong Kong Trade Development Board Executive Director Su Zeguang (3685 3419 0342) said that Hong Kong's entrepot trade showed an approximately 25 percent rise in 1989, and that exports of Hong Kong products increased by approximately four percent for the whole year. The outlook for 1990 is that Hong Kong's entrepot trade will increase by approximately 10 percent, and exports of Hong Kong products will be maintained at the 1989 level. Figures showed a complete slowing of Hong Kong's foreign trade during 1989.

The entrepot trade is the most important part of Hong Kong's foreign trade. Although Hong Kong's entrepot trade continued to increase during 1989, the degree of increase declined with each passing month, by 42 percent during the first quarter, 33.4 percent during the second quarter, 23.9 percent during the third quarter, and continuing to decline during the fourth quarter.

Hong Kong's entrepot trade is closely tied to events in inland China. Inland China is the greatest source of entrepot cargo and the greatest entrepot market for Hong Kong. With the beginning of economic restructuring and readjustment at the end of 1988, and particularly with the more rigorous institution of a policy of fiscal and financial retrenchment in China during 1989, demand for imports decelerated. Under these circumstances, transshipment of commodities from all over the world via Hong Kong to inland China could not help but be hurt, and this was the main reason for the slowed increase in Hong Kong's entrepot trade. However, because of the large-scale transfer to inland China of Hong Kong manufacturing industries, as well as China's strenuous efforts to increase exports, transshipments of inland commodities through Hong Kong continued to maintain strong growth, thereby insuring overall growth of Hong Kong's entrepot trade. Prospects are for a continued slowing in the pace of entrepot trade growth during 1990 as a result of inland China economic retrenchment policy.

In 1989, exports of Hong Kong products increased by only four percent, the smallest percentage for the past four years. This resulted primarily from Hong Kong industry being in a period of conversion in which most labor-intensive industries have been transferred to inland China and to Southeast Asia, their products being exported as local manufactures. This was the

main reason for the slowing of Hong Kong product exports. Second was a rise in the Hong Kong dollar exchange rate, an increase in production costs, and a labor shortage, all of which directly weakened the competitiveness of Hong Kong products and production capability. In addition, overall economic growth slowed during 1989 in the United States and West Europe, the main markets for Hong Kong exports. During 1989, economic growth slowed by an estimated 2.5 percent in the United States, which is the greatest area for exports of Hong Kong products. In addition, consumer spending weakened causing a steady decline in demand for Hong Kong products. West European countries also generally adopted financial tightening policies during 1989 causing a four percent decline in Hong Kong's exports to western Europe for the year. Furthermore, a tide of protectionism on the part of all countries continued to pose a threat to the export of Hong Kong products.

Prospects are that exports of Hong Kong products will remain at the 1989 level during 1990. The potential of Asian markets, and the gradual opening of East European markets provide greater trade opportunities for Hong Kong. In addition, some Latin American countries have also adopted export expansion policies, which clearly provide Hong Kong firms more avenues for sales.

International Standing Said Improving

90OH0356A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese
No 4, 22 Jan 90 pp 9-10

[Article by Professor Zhou Weiping (0719 4850 1627), Vice Chairman of the Standing Committee of the National Hong Kong and Macao Economic Society: "Preserve and Develop Hong Kong's International Standing as a Plural Economic Center"]

[Text] Further internationalization of Hong Kong's economy and continuous consolidation and development of Hong Kong's international standing as a plural economic center was an important characteristic of Hong Kong's economic development in the 1980's.

For Hong Kong's economy, the 1980's was not an uneventful period. Both external environment and internal situation experienced extremely grim situations on many occasions. However, Hong Kong's economy did not regress. During the 10-year period, there were ups and downs, but the average annual actual growth rate was still estimated at seven percent or higher and the per capita GNP increased from less than \$6,000 to over \$10,000. The growth rate still ranked among the world's highest. This achievement was a result of the combined effect of many subjective and objective factors. One of the factors of success that cannot be ignored was the strengthening of economic internationalization and the consolidation and development of the international standing as a plural economic center.

In the past decade, the gross value of Hong Kong's foreign trade increased over four-fold. Hong Kong not only preserved its traditional trade relations with the United States and West Europe but also expanded the market of the Asia-Pacific region. The proportion of Asia-Pacific countries and areas in Hong Kong's trade volume increased from 48.5 percent in 1980 to 60 percent in 1988. Of this, the bilateral trade between Hong Kong and inland China increased approximately 10-fold. Hong Kong has resumed its traditional function as an entrepot. Beginning in 1988, the value of entrepot trade exceeded the export value of Hong Kong's local products and Hong Kong became one of the world's major entrepot trade centers. Its scale and influence has far exceeded that of the small entrepot in the early 1950's. In line with this, Hong Kong has been the world's biggest container port for three consecutive years since 1987.

Hong Kong's standing as a regional and international financial center was preserved and developed continuously in the 1980's. The number of banks operating in Hong Kong has increased to 166 from 113 in 1980. Of which, 136 are registered as overseas banks. Out of 100 of the world's largest banks, 85 have branches or agencies in Hong Kong, enabling Hong Kong to become the biggest international offshore banking center next only to London and New York. Many overseas banks and other financial organizations use Hong Kong as regional headquarters to make overall planning for and coordinate their business in Asia. Hong Kong still is a syndicated loan center, one of the four major gold trading centers in the world, and one of the biggest foreign exchange trading centers in the Asia and the world. Hong Kong has also developed into an international fund management center in recent years. In the past decade, a series of incidents occurred in the financial market. For instance, during the crisis of Hong Kong dollar in September 1983, eight local banks were on the brink of bankruptcy and the stockmarket tumbled many times. Since measures were adopted promptly to improve the monitor and control system, these incidents did not develop into an all-round financial and economic crisis, demonstrating the flexibility and adaptability of Hong Kong's economy.

Foreign capital is a major factor in Hong Kong's economic activities. The influx of foreign capital was a prominent phenomenon in Hong Kong's economy in the 1980's. The number of overseas companies registered in Hong Kong increased from 1,398 in 1980 to 2,348 in 1988. The accumulated amount of foreign investment in Hong Kong's manufacturing industry increased from over HK\$2.54 billion in 1980 to over HK\$26.17 billion in 1988. The accumulated amount of U.S. investment accounted for HK\$8.9 billion, which has been the highest for many years. Japanese investment increased the fastest, from over HK\$570 million to over HK\$6.96 billion. It is reported that in the overall economic activities of Hong Kong, the accumulated amount of British investment is approximately £20 billion and the accumulated amounts of

U.S. and Japanese investments are both over \$6 billion. The investment of inland China in Hong Kong also increased substantially in the 1980's.

Hong Kong's standing as a regional and international economic center in such economic spheres as tourism, transportation, and information was also strengthened to some degree in the 1980's.

Continuing to preserve and develop this prominent advantage and success factor of Hong Kong's economy is a key to preserving the prosperity and stability of Hong Kong in the 1990's. We should do so not only in the transition period of the next seven years and six months but also after Hong Kong's transition period.

The joint declaration of Chinese and British governments on the Hong Kong issue has provided an extremely powerful assurance for preserving Hong Kong's prosperity and stability, the international character of Hong Kong's economy, and Hong Kong's international standing as a plural economic center. In the past four years since the joint declaration went into effect, both sides, Chinese and British, have conducted effective discussions and achieved actual results concerning the issue of Hong Kong independently maintaining and developing economic and cultural relations with different countries, regions, and concerned international organizations in the future. Through the efforts of both sides, Hong Kong has officially become an independent signatory to the GATT and an independent member of the Customs Cooperation Council and other important international organizations. This has set a good precedence for ensuring the international standing of Hong Kong's economy.

Preserving Hong Kong's international character and its international standing as a plural economic center benefits Hong Kong, China, and the world. A prosperous and stable Hong Kong that maintains its international standing as a plural economic center is a favorable factor for China to adhere to the reform and open policy and carry out modernization.

On the Hong Kong issue, all plans and actions that endanger China's sovereignty and violate the joint declaration are detrimental to Hong Kong's prosperity and stability and will eventually exert unfavorable influence on Hong Kong, Britain, and all foreign investors. Only by following the joint declaration, striving to preserve and develop Hong Kong's economic advantage and success factor, and preserving the international character and standing of Hong Kong's economy, can China and Britain open up a good prospect for Hong Kong in the 1990's.

Poll Reveals Public Apathy Over Basic Law

HK0503020790 Hong Kong SOUTH CHINA
MORNING POST in English 5 Mar 90 p 3

[By Simon MacKlin]

[Text] The majority of people in Hong Kong are apathetic about the final draft of the Basic Law while fewer than one percent say they are very satisfied with the mini-constitution, a public opinion poll has found.

But the poll of 500 people also shows a small drop in the number planning to emigrate compared with three months ago and a change in the popularity of migration destinations.

Of those asked about the Basic Law only 0.5 percent said they were "very satisfied" while 11 percent admitted they were quite satisfied with the final draft agreed in Beijing last month.

But a majority of 59 percent said they held no views on the issue and only 17 percent voice dissatisfaction with the final draft.

Of those dissatisfied, a third said they believed the draft stressed Beijing's wishes and neglected the views of the people of Hong Kong.

Another third said they were disappointed with the slow pace of political development for the territory.

Asked specifically about the political system spelt out in the Basic Law, 11 percent said they were satisfied, while only 14 percent admitted to being dissatisfied.

But here again the majority had no feelings on the issue with 60 percent offering no comment on whether they were satisfied with the political system adopted after four years of consultation.

Of those who were dissatisfied with the political system in the Basic Law, 21 percent said they did not trust the Chinese authorities and believed the laws governing Hong Kong might be amended at any time by Beijing.

A further 24 percent said they felt the political system did not allow for enough directly elected seats in the legislature while 30 percent said the democratic pace was too slow.

The territory-wide survey carried out between February 20 and 23 by the Opinion Poll Bureau of Consumer Search Hong Kong, a market research company, also revealed changes in migration plans.

Asked about their plans to emigrate, the survey found 30 percent were keen to leave while 11 percent were undecided and 59 percent were planning to stay in Hong Kong.

The number planning to leave is slightly down on the figure polled three months ago by the same company when 37 percent intended to leave.

But the figure is the same as for the same period last year when 30 percent of those asked said they would leave.

Asked where they planned to set up their new homes, the poll showed a slight change in the popularity of different destinations.

Canada continued to top the list as it has done consistently over the last year and in fact increased in popularity over the last three months.

The poll showed of those planning to emigrate, 39 percent were heading for Canada—up by seven percent on the same period last year.

The United States has risen in popularity and is now the second most popular destination with 20 percent of migrants choosing America as their destination.

But Australia has dropped from second to third place in the popularity stakes with only 18 percent of migrants choosing to go there compared with 29 percent in March last year.

END OF

FICHE

DATE FILMED

09 April 1990